REVIEW OF THE FARM SECURITY AND RURAL INVESTMENT ACT OF 2002

HEARING

BEFORE THE

SUBCOMMITTEE ON
GENERAL FARM COMMODITIES
AND RISK MANAGEMENT

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

MAY 20, 2004

Serial No. 108–30

Printed for the use of the Committee on Agriculture
agriculture.house.gov

U.S. GOVERNMENT PRINTING OFFICE

94–330 PDF WASHINGTON : 2004

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

COMMITTEE ON AGRICULTURE

BOB GOODLATTE, Virginia, *Chairman*

JOHN A. BOEHNER, Ohio
Vice Chairman
RICHARD W. POMBO, California
NICK SMITH, Michigan
TERRY EVERETT, Alabama
FRANK D. LUCAS, Oklahoma
JERRY MORAN, Kansas
WILLIAM L. JENKINS, Tennessee
GIL GUTKNECHT, Minnesota
DOUG OSE, California
ROBIN HAYES, North Carolina
CHARLES W. "CHIP" PICKERING, Mississippi
TIMOTHY V. JOHNSON, Illinois
TOM OSBORNE, Nebraska
MIKE PENCE, Indiana
DENNIS R. REHBERG, Montana
SAM GRAVES, Missouri
ADAM H. PUTNAM, Florida
MAX BURNS, Georgia
JO BONNER, Alabama
MIKE ROGERS, Alabama
STEVE KING, Iowa
CHRIS CHOCOLA, Indiana
MARILYN N. MUSGRAVE, Colorado
DEVIN NUNES, California
RANDY NEUGEBAUER,Texas

CHARLES W. STENHOLM, Texas,
Ranking Minority Member
COLLIN C. PETERSON, Minnesota
CALVIN M. DOOLEY, California
TIM HOLDEN, Pennsylvania
BENNIE G. THOMPSON, Mississippi
MIKE McINTYRE, North Carolina
BOB ETHERIDGE, North Carolina
BARON P. HILL, Indiana
JOE BACA, California
RICK LARSEN, Washington
MIKE ROSS, Arkansas
ANÍBAL ACEVEDO-VILÁ, Puerto Rico
ED CASE, Hawaii
RODNEY ALEXANDER, Louisiana
FRANK W. BALLANCE, JR., NORTH CAROLINA
DENNIS A. CARDOZA, California
DAVID SCOTT, Georgia
JIM MARSHALL, Georgia
BEN CHANDLER, Kentucky
EARL POMEROY, North Dakota
LEONARD L. BOSWELL, Iowa
MIKE THOMPSON, California
MARK UDALL, Colorado
RICK LARSEN, Washington
LINCOLN DAVIS, Tennessee

PROFESSIONAL STAFF

WILLIAM E. O'CONNER, JR., *Staff Director*
KEVIN KRAMP, *Chief Counsel*
STEPHEN HATERIUS, *Minority Staff Director*
ELYSE BAUER, *Communications Director*

SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT

JERRY MORAN, Kansas, *Chairman*

JOHN A. BOEHNER, Ohio,
NICK SMITH, Michigan
Vice Chairman
TERRY EVERETT, Alabama
FRANK D. LUCAS, Oklahoma
WILLIAM L. JENKINS, Tennessee
CHARLES W. "CHIP" PICKERING, Mississippi
TIMOTHY V. JOHNSON, Illinois
MIKE PENCE, Indiana
DENNIS R. REHBERG, Montana
SAM GRAVES, Missouri
MAX BURNS, Georgia
CHRIS CHOCOLA, Indiana
MARILYN N. MUSGRAVE, Colorado
RANDY NEUGEBAUER, Texas

COLLIN C. PETERSON, Minnesota
Ranking Minority Member
BENNIE G. THOMPSON, Mississippi
RODNEY ALEXANDER, Louisiana
MIKE ROSS, Arkansas
CALVIN M. DOOLEY, California
EARL POMEROY, North Dakota
LEONARD L. BOSWELL, Iowa
BOB ETHERIDGE, North Carolina
BARON P. HILL, Indiana
ED CASE, Hawaii
DENNIS A. CARDOZA, California
JIM MARSHALL, Georgia
RICK LARSEN, Washington
LINCOLN DAVIS, Tennessee

CONTENTS

WITNESSES

REVIEW OF THE FARM SECURITY AND RURAL INVESTMENT ACT OF 2002

THURSDAY, MAY 20, 2004

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM
COMMODITIES AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 9:32 a.m., in room 1301 of the Longworth House Office Building, Hon. Jerry Moran (chairman of the subcommittee) presiding.

Present: Representatives Smith, Lucas, Burns, Neugebauer, Osborne, Goodlatte [ex officio], Peterson, Alexander, Dooley, Pomeroy, Boswell, Etheridge, Hill, Davis, and Stenholm [ex officio].

Staff present: Matt O'Mara, subcommittee staff director; Christy Seyfert, Callista Gingrich, clerk; Craig Jagger, Teresa Thompson, Howard Conley, Anne Simmons, and Tony Jackson.

OPENING STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. MORAN. The Subcommittee on General Farm Commodities and Risk Management will come to order. I welcome you all, and your presence here. I thank our witnesses for their testimony that we will soon receive.

We are here to commemorate something that happened 2 years ago this month, the signing of the farm bill. It has been in play, amazingly to me, now for the last 2 years, and it seems appropriate to me that we take a moment to review not its implementation, but how its policies, that are included in that farm bill, are working for everyday farmers across the country. Our panel consists of a high level official from the Department of Agriculture, Dr. Collins, and a number of farm organizations are here with many of their top leadership, and I am very grateful for that.

We have a very full agenda today. I try very hard to have this subcommittee meet in shorter periods of time rather than day-long hearings, and we are going to try to make certain that is the case today, and so I would ask that our witnesses limit their remarks to the usual 5 minutes. Their entire statement will be made a part of the permanent record of this subcommittee.

I recognize that crafting the Farm Security and Rural Investment Act of 2002 was a long and intensive effort. A series of hearings and meetings across the country, led by Chairman Combest and Mr. Stenholm occurred, and we took lots of testimony, heard lots of comments, and created a farm bill. The years leading to that farm bill were difficult ones for American agriculture, and a series of ad hoc disaster market loss payments were provided. They were vital to the farm sector, but they also were very uncertain.

The purpose of this hearing, as I indicated earlier, is not implementation of the law. For 2 years, this bill has been the law of the land. USDA, in my opinion, made a commendable effort in implementing a very complex and time-consuming policies and programs developed by the farm bill. A quick review of the highlights of that farm bill, particularly as they relate to the jurisdiction of this subcommittee. We allowed the producers to update bases and yields. We restored the counter cyclical program. Oilseeds were now a covered commodity. A number of changes were made in other areas somewhat outside the jurisdiction of this subcommittee, peanuts, wool, mohair, honey, milk, income loss, compensation program in sugar had changes.

Apart from the traditional crop programs, the farm bill of 2002 provided farmers with additional incentives for conservation practices, including an 85 percent increase in funding.

One of the most interesting and useful developments, in my opinion, from the 2002 farm bill, is its current estimated cost. We actually now have real information about that, and the estimates by CBO at the time we passed the farm bill were significantly higher than reality, and this change in cost, I think, can be attributed to an improving farm economy related to higher commodity prices.

The farm bill, its cost drew lots of criticism, and I am happy to hear what Dr. Collins and others have to say about the actual cost of the farm bill, and the predictions that were made, and the criticism that that generated, both here and our editorialists, and around the world.

No legislation passed by Congress is perfect, and any farm bill, particularly this one, it is an attempt to accommodate wide-ranging interests and different economic conditions and philosophies, and my goal for this hearing is to not just hear about good things, and not just to hear, probably, the typical testimony will be please don't open the farm bill, which I am willing to hear, but I would also like to know that if there are things that need to be improved, policies and strategies that did not work, or are not working well, I would like to know that as well.

I want this to be a meaningful oversight hearing. I would suspect we will have additional hearings in regard to this topic, but I think this second anniversary is a good time to begin. I would also request our witnesses to attempt to limit their comments to commodity provisions related to program crops, issues that are within the jurisdiction of this subcommittee.

And with that, I turn to the gentleman from Minnesota, Mr. Peterson, for any comments he would like to make.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman, and thank you for your leadership. I thank all of you for being with us today.

I will be brief, so we can move this along, but I think it is a good time for us to take a look at the provisions of the farm bill. As you know, a lot of improvements were made in that farm bill. I still think, however, that we still have a hole in the overall farm program, I would like to see us have a permanent disaster program, along with and in addition to crop insurance, and any of you that have any thoughts about that, there are parts of the country where we have got significant drought, again, coming up on us this year, and I think we would be better served if we had a permanent disaster program in place, rather than doing these ad hocs that we have done in the past.

I would also like to welcome, from the big town of Murdock, Minnesota, one of my constituents, Mr. Dave Frederickson, the president of the National Farmers Union, to the panel today, and we appreciate you leaving Murdock to come up and see us, Dave.

Thank you, Mr. Chairman, and I look forward to hearing the witnesses.

[The prepared statement of Messrs. Peterson, Smith, and Davis follows:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON

I want to thank the chairman for calling this hearing at this important time of the second anniversary of the signing of the farm bill. I would also like to extend a welcome to our distinguished guest who will be testifying here today.

The farm bill is a landmark piece of legislation that has worked. Money has been available when market prices couldn't support our producers and the system has allowed for good markets to support our producers when they were present without distorting prices. The system is a balance that has proven from last year to this year of record prices in some commodities to be working.

There have been criticisms that the farm bill adds to the budget deficit, but in fact theCBO estimate that the commodity program costs for the first 3 years of the farm bill are $15 billion less than originally expected.

I know from reading the testimony today that our commodity organizations are pleased with the outcome of this farm bill and the fact that the farm bill has ended up costing less than expected due to good prices and balanced programs is a win for the farmer and taxpayer.

I look forward to today's testimony.

PREPARED STATEMENT OF HON. NICK SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Thank you Chairman Moran and Ranking Member Peterson for holding this hearing to review the Commodity Title in the Farm Security and Rural Investment Act of 2002.

I'd also like to thank Dr. Collins for his high level of expertise and integrity he brings to the USDA. I look forward to his testimony as well as that from the farm and commodity groups before us today who speak directly for the producers of these various agricultural commodities.

Two of my concerns I'd like to address today, in regard to whether the 2002 farm bill is serving the needs of our farmers and agribusinesses are: Is the Research Title of the 2002 farm bill adequately addressing the needs of the groups present here today? Do commodity certificates need to be included under the $75,000 marketing assistance loan caps?

First, I have been an avid supporter of agricultural research, especially biotech development for our farm-gate sector. Agricultural research will have to continue to adapt and grow to provide the U.S. with the safest, most affordable food supply in the world. However, with the exception of recent years in which USDA research agencies have received supplemental funds for antiterrorism activities, the agricultural research budget, when adjusted for inflation, has remained flat for almost 30 years. Furthermore, current financial difficulties at the state level are causing some states to reduce the amounts they appropriate to match the USDA formula funds for research, extension, and education.

With that said, does the current agricultural research funding model need to be revamped? Does the Federal Government have the right to unilaterally direct the priorities and activity of the state while at the same time; states go around the system by soliciting special earmark grants from Congress to meet the needs of the state? While this has been the accepted procedure in the political arena, national priorities in the past were initially developed in an interactive debate between the substantive partners to reach a consensus of the states and the relevant Federal agencies before going to Congress. The decline in this partnership silences the voice of the larger agricultural science community in setting priorities and reduces the capacity and flexibility of the colleges and USDA to deal with the problems in agriculture and society.

Changing this will require a fundamental shift in our views of how to attain agriculture research funds including Members of Congress. Both of this year's agriculture appropriations bills will likely retain nearly all funding for earmarked special research grants, while the administration had recommended the elimination of virtually all such funding. Is this the path we want to continue to walk?

We can compare the National Institutes of Health (NIH) funding model, which was funded at $27 billion in fiscal year 2003, to support activities that maintain and improve health through medical science. The NIH, through a competitive granting program for both public and private enterprises, has gone through a 5-year effort by Congress to double the size of its funding, which began in 1998 at $13.6 billion.

I'm looking for input here. Any change will have to start from within for the involved stakeholders. President Franklin Roosevelt noted, "There are many ways of going forward, but only one way of standing still." Do we just let our current agricultural research model stand still or are their new and better ways to approach this dilemma/opportunity?

Second today, I'd like to follow up on the Payment Limit Commission Report that came out last year. Again, I thank Dr. Collins for his leadership in conducting this report in a concise and timely manner.

Reading some of the comments following the Commission's report, it seems important to stress the fact that a few large farmers utilizing generic commodity certificates are avoiding payment limits. Under the current law, there are no limits for price support payments to farmers using commodity certificates. When the $150,000 limit is reached, producers can continue to receive unlimited price support benefits through loan forfeitures and generic commodity certificates. Generic commodity certificates are in practice the same thing as LDP's or marketing loan gains, yet they are not included under the payment limitations.

Thus, generic commodity certificates are essentially loopholes allowing large farming operations to exceed the payment limits. As a result large farms can collect millions of dollars in Federal subsidies. Is it really the objective of Federal farm policy to provide virtually unlimited price support to large farming operations? Personally, I would be in favor of increasing the overall payment limit if generic commodity certificates were included under this cap.

It is often argued that cooperatives need to use these certificates as a marketing tool and that the money is spread over numerous producers. This argument dodges the real issue, however, that generic certificates provide a loophole for large producers in the cooperatives to collect unlimited dollars in Federal subsidies above and beyond the so-called payment limits. Even within such co-ops, individual farm production records can be used to enforce compliance if this loophole were closed. As you may know a majority of the Senate and the House voted to instruct conferees to have real payment limits. Unfortunately, the conferees did not follow through. The next farm bill is at risk of overly severe limits if continued abuse is evident.

The next farm bill will spend less money, and therefore for American agriculture to better compete we need the research to lower production costs, more fair trade agreements, review of overzealous regulation, and lower State and Federal taxes on farmers and ranchers.I look forward to the testimony.

Prepared Statement of Hon. Lincoln Davis, a Representatives in Congress from the State of Tennessee.

I'd like to thank the chairman and the ranking member for holding this hearing today to review the 2002 Farm Security and Rural Investment Act. Coming from the Cumberland Plateau inTennessee I have the honor to represent a very rural district. In fact, the National Journal ranked my district, the fourth most rural district in Congress. Given this fact I think it is pretty obvious where my priorities and concerns for my constituents lie.

While I understand the importance of the title I program in a time of an increasingly growing global economy, and I understand rural development is not under the jurisdiction of this subcommittee, I am concerned about the lack of appropriate funding for the rural investment programs For instance:

The Rural Investment Program: the farm bill authorizes $100 million total for fiscal year 2002–07. Appropriators have blocked funding for the program in fiscal year 2002–04. The administration recommended canceling funding for the program this year.

Value-added Product Market Development Grants: Mandatory funding is authorized at $40 million in each fiscal year 2002–07. In 2002 $26 million was appropriated, funding was blocked in 2003 (there was $15 million in discretionary funding), 2004 mandatory funding was blocked again (with $15 million in discretionary). The administration recommended canceling funding for this mandatory program.

Firefighters and Emergency Personnel Training Grants: the program is authorized at $10 million for each fiscal year 2002–07. No funds have ever been appropriated and the administration recommended canceling the program this year.

Rural Investment Program: the farm bill authorizes $100million for the program. Nothing was appropriated the first 2 years, funding was blocked in 2004 ($4 million in discretionary). In 2005 the administration recommended canceling $21 million in mandatory grant funding

Rural Access to Broadband: farm bill authorizes $20 million for each year through fiscal year 2007. Mandatory funding has been blocked every year and for fiscal year 2005 the administration requested canceling the program's funding.

For the people I represent this is unacceptable. In addition to the commodity program, rural America needs title VI programs to be fully funded in order to grow, develop, and continue to provide an opportunity for a good life. Currently there is a real problem of young people leaving rural areas in search of better opportunities. We need real investments in infrastructure for job creation so the better life our young people seek can be found at home.

Again, I understand the need for the commodity program, and I am pleased to see it has come under the original Congressional Budget Office predictions for the farm bill, but unless we pay attention and fund the rural development aspects of this bill we risk losing a great part of America. The kind of people I get to represent.

Mr. MORAN. I thank the gentleman, and we will commence our hearing, and I recognize Dr. Keith Collins, the Chief Economist at the Department of Agriculture. Welcome, Doctor.

STATEMENT OF KEITH COLLINS, CHIEF ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE

Mr. COLLINS. Thank you very much, Mr. Chairman. Thank you, members of the subcommittee.

I appreciate the opportunity to start this hearing off by reviewing the state of the farm economy and the performance of commodity programs in the 2002 farm bill. Now, at the 2-year mark of the farm bill, I think the story is as you outlined, Mr. Chairman, very positive. USDA began implementation of the farm bill by identifying 500 action items that we would have to implement. We estimate that today we are about 95 percent complete, and that we have implemented these provisions quickly, efficiently, and equitably.

The commodity provisions of title I are in full operation, and thus far, we have paid out about $15 billion in payments, and there are many other farm bill programs that affect commodity producers that have also been implemented, especially in the areas of conservation and energy, such as the CRP, EQIP, the Grassland Reserve Program, the CCC Bioenergy Program, the Renewable Energy Systems and Energy Efficiency Program, to name a few.

When USDA began implementing the farm bill in the summer of 2002, the Dow Jones Industrial Average had dropped below 8,000, the price of corn was below $2 a bushel, the price of soybeans was under $5 a bushel, and cotton prices were 35 cents a pound. At that time, the farm bill was poised to be costly, and a highly significant component of future farm income. You talked about the media, Mr. Chairman. I recollect that Business Week at that time characterized enactment as "a horrendous event for the American taxpayer."

The story today is remarkably different. Farm exports may be a record high, even with the disruptions caused by BSE and avian influenza. Domestic demand is surging. Prices are setting records. Farm income was record high in 2003, and it is going to be very strong again this year.

On May 12, the Department issued its first official forecast for the 2004 crops, and we forecast record high corn, soybean, and rice crops, a good cotton crop, but wheat down about 11 percent, because of the dry weather. But even if we achieve the record crops that we forecast, we expect declines or only very slight increases in carryover stocks of all major commodities. Markets will be tight, and the tight market suggests that prices will remain strong, although volatile, for the rest of this marketing year and through the upcoming marketing year.

The performance of the livestock sector has been no less extraordinary than the performance of the crop sector. U.S. meat production was down slightly in 2003. It is forecast to go up only slightly this year, and when you combine that with very strong demand, that has pushed livestock and poultry prices to surprisingly high levels, and they are expected to remain strong through 2005 as well.

The robust farm economy illustrates the important countercyclical design of the 2002 farm bill. When market prices are strong, the farm program support structure becomes fairly benign. When market prices are weak, then the farm program support structure plays an expansive role in supporting farm income.

Federal spending on price and income support programs for the 2003 through 2005 fiscal years was estimated in the President's budget released in February to be down $17 billion below the levels forecast right after enactment of the farm bill, and based on more recent prices, it is more likely down in the neighborhood of $20 billion. As a result of that, the payments under our commodity programs which were 37 percent of net cash farm income in 2000, will equal only 14 percent of net cash farm income this year.

One of the more remarkable feats of farm bill implementation, as you mentioned, Mr. Chairman, was how quickly and how effectively the Farm Service Agency implemented the massive project of partial base and yield updating. About 45 percent of enrolled producers, accounting for 40 percent of base acres, elected to update bases and program yields, and in addition to that provision, the Department has successfully implemented the program of direct and countercyclical payments, marketing assistance loans, the quota buyout program for peanuts, a new marketing allotment program for sugar, and a Milk Income Loss Contract Program that has provided, thus far, $2 billion in payments to dairy producers.

The farm bill has continued the market-oriented planting flexibility provisions of earlier farm bills, like the 1996 Act. Decoupling payments from planting decisions allows producers to pick the crop mix that best meets their economic, their environmental, and other considerations without losing their payments.

Now, there has been some criticism that the 2002 farm bill recoupled production with payments, through the base and yield updating provisions, but the data that we have looked at suggests that producers are continuing to make their planting decisions based on market conditions, and not on base allocations.

While the 2002 farm bill will continue to generate questions, and surely face challenges in the coming years, I think at the end of its second year, there appears to be general agreement that the farm bill has provided a built-in safety net that producers and lenders can rely on when prices drop to very low levels, and it has provided new tools for addressing resource concerns on working lands.

The commodity programs are functioning as envisioned, with current tight markets leading to lower payments to producers and a savings to taxpayers. Resources are being allocated by costs and by returns that are largely determined based on market prices, and producers have the freedom to select their most profitable enterprises.

That completes my statement. I will be happy to answer questions.

[The prepared statement of Mr. Collins appears at the conclusion of the hearing.]

Mr. MORAN. Dr. Collins, thank you very much for your summary.

I was looking in your testimony to find the words that you just said, is the topic that I wanted to explore with you for a minute, and that is the balance between fixed payments and those based upon production, the so-called issue of decoupling. The House and Senate had philosophical and other disputes, debate over these issues. Any sense that we have struck the right balance in those payments? And I would like for you to elaborate, if you would, on why you are able to reach the conclusion that the payments are not affecting planting decisions, or that farmers are making decisions based upon the market, as compared to the farm program.

Mr. COLLINS. Well, let me start with the last question first, and I think the fact that producers are reacting more to market prices is in large part a function of where markets are right now. Price levels for all of our major commodities are essentially above loan rates.

Loan rates, as the Department has long held, are probably the most production-distorting of all the program provisions. It is counted as a commodity-specific Amber Box program under our WTO notifications. And so this is a program that has really receded into the background over the last couple of years. Our spending on loan deficiency payments over the last couple of years has amounted to only a couple of billion dollars, so we don't think that that has had much of an influence on production decisions.

Likewise, we have long felt that direct payments and countercyclical payments are decoupled from production. Producers get those regardless of what they plant, even though one of them, the countercyclical payment, is price-based.

So, it is the theory of those payments, combined with empirical work that lots of analysts have done, which suggests that both the direct and countercyclical payments are minimally production-distorting. So, I think it is based on that body of work that I can draw a conclusion about how market-oriented farm programs are today.

I would also say if you look at the crop acreage bases that producers have, there is an awful lot of shifting of what is planted on those crop acreage bases. We have done some work in looking at what bases are, and what people plant on their bases, and there is a tremendous amount of interchange that takes place, and in many cases, producers are not planting their full acreage bases either.

Regarding the question of whether we have struck the right balance——

Mr. MORAN. Excuse me, Dr. Collins.

Mr. COLLINS. Yes.

Mr. MORAN. On the point that you just made, what are the implications, then, that conclusion. What is the implications of that conclusion upon the allegation that farm programs are trade-distorting?

Mr. COLLINS. Well, we do acknowledge that certain farm programs are trade-distorting. And we have a $19.1 billion cap, called the aggregate measure of support, under which we can spend that level on programs that are production and trade-distorting. And we have been up in the $14, $15, $16 billion range in some years under that cap. So, we do have programs that are production and trade-distorting. We are permitted, under the WTO, to have programs that are production and trade-distorting.

The question is are all of our programs production and trade-distorting, and in fact, are we exceeding the $19.1 billion, because we are not counting some programs that are production-distorting against the cap. That, of course, is the heart of a recent WTO case that we have been involved in.

And so, I would continue to affirm that our notifications are accurate until judged otherwise, that we do admit that the marketing assistance loan program is production-distorting, and that happens when prices get very low, below loan rates, but that countercyclical program and the direct payment program, the crop insurance program, are all minimally production and trade-distorting, and have little to no effect on global market prices.

Mr. MORAN. Thank you. I would appreciate the second part of my question, then.

Mr. COLLINS. The second part of your question is a judgmental response. Have we struck the right balance between payments that are decoupled and payments that are not decoupled? At the moment, the balance looks pretty good, because almost all of our payments are decoupled. The direct payments run about $5.3 billion a year, probably for the 2004 fiscal year, we will spend $10 or $11 billion on price and income support programs, including CCC conservation programs like the Conservation Reserve Program.

So, if you are spending $10 or $11 billion, and you take out conservation, you take out trade, you are almost left only with the direct payments, and so as an economist, I like that. I think that that is a positive thing. I would prefer, from an economic efficiency point of view, payment programs that are independent from production decisions. So the balance looks pretty good to me.

Now, if we go the other way, if we end up with 35-cent cotton prices again, in years to come, and $1.50 corn prices, then I might say that the balance has gone too far the other way.

Mr. MORAN. Doctor, thank you. Let me reiterate something you said, and that I said perhaps in too mild of a form, which is my appreciation to FSA employees, Department of Agriculture, for the implementation efforts that went into seeing that this farm bill was implemented, I think, in a very expeditious manner. There are always difficulties in this implementation, but I think USDA did a good job in getting us through those, and I appreciate you and the folks at USDA for that effort.

Mr. COLLINS. Thank you. I am sure the staff would appreciate that.

Mr. MORAN. The gentleman from Minnesota.

Mr. PETERSON. Thank you, Mr. Chairman. Thank you, Mr. Collins. I am sure you know the Farm Service Agency has redefined the family farm definition, where they are using now specific income figures to decide what is a family farm, and that is defined as what is eligible for the direct loan program, and we have been getting a lot of calls and concerns from different producers that you can be defined as a family farm one year and not the next year, just depending on what happens with prices. So, it created kind of an uncertain situation out there, and people think that this is not the wisest way to proceed with this.

Are you, as a Department, taking a look at that, and reconsidering using that criteria?

Mr. COLLINS. The short answer to that, Mr. Peterson, is absolutely yes. You have heard a lot about this—we have heard a lot about this. I personally have heard about this from people in the countryside who are concerned.

I think we were well-intentioned. We have a subjective way of determining what a family farm is, and the concept was really to look at a family-size farm, and the goal was to define such a farm that was under the management of a family and used the labor and resources that primarily a family could provide, and that judgment was made locally, and it was different from one region of the country to another. And there was some time spent in making that judgment, so the intention was to come up with a uniform definition that would not require the time and labor of county offices to make that judgment, thereby saving money.

In fact, the analysis we put out on this proposed rule, this is a proposed rule, the economic impact analysis showed that there would be a $1 million savings from this, and not from savings in payments, savings in administrative costs in this proposed rule. But the proposed rule would have set the family size definition at $750,000 in gross sales, or the 95th percentile, the gross sales level at which 95 percent of the farms in the State are below.

Obviously, that has generated a lot of controversy. The answer to your question is we have received lots of comments on this, and we are rethinking this. And we are going to pay close attention to those comments.

Mr. PETERSON. Thank you. I think what you are trying to accomplish is right, but I think we maybe need to tweak this a little bit.

The other thing, we had a lot of criticism back before the farm bill about the amount of money we were spending, and opposition during the farm bill as to what we were doing, from the administration and others. Now, with the situation, we have saved considerable money from what we thought, but I don't think most people in America understand this at all. I mean, some of us try to get this message out, but we are not getting any credit for spending less money, I don't think, around the countryside.

Are you guys doing anything to try to help us get that message out, that we are actually spending a lot less money, and that our budget deficit is considerably lower, because the farm sector is not taking the tremendous amounts of money that we did back in the late 1990's?

Mr. COLLINS. The answer is yes. We can always do more, but we are testifying in House Agriculture subcommittee hearings about this, like today. The Secretary has frequent radio bridges with the press all across America, with the farm press. We have our USDA radio studio, the capacity where we put out press statements all the time that are picked up by about 850 radio stations across the country. I do many interviews on the USDA press regarding this issue.

So, yes, we are trying to do that. I think it is an important thing to do, considering the constant barrage we have had in the press criticizing the farm bill, particularly in 2002. Many of the editorials and op-ed articles in all the major newspapers, and then of course, the resurgence of criticism that has occurred since Cancun, related to people criticizing the cotton program, and our farm programs as well, in the trade negotiation environment.

So I do think it is important when you have good news to get the good news out, because certainly, you are going to get some heat when the news is not so good.

Mr. PETERSON. I guess the problem is that the good news is not news half the time, so——

Mr. COLLINS. That is true.

Mr. PETERSON. Anyway, we appreciate that and appreciate you being with us. Thanks.

Mr. MORAN. The gentleman from California, Mr. Dooley.

Mr. DOOLEY. Thank you, Mr. Chairman, and Dr. Collins. I really, once again, appreciate your excellent testimony. I just wonder if you will give me a little bit of an update on where we are at in the dairy program, not the MILC program I read in your statement, where it is at, but in terms of stocks that the Government controls in butter and powder, and what is the prospects in this time of high milk prices to start putting some of those into workplaces?

Mr. COLLINS. I am happy to report on that. As you look down the list of stocks held by the Federal Government, I can think back in earlier times in my career, I get this sheet that comes from the Commodity Credit Corporation that shows the inventory in CCC, and 10 years ago there were big numbers in every cell, but today, there are zeros all over the place. We own almost nothing. We have 1.6 million tons of wheat in the Bill Emerson Humanitarian Trust. We have nonfat dry milk. Most everything else is gone. We have sold peanuts, we have sold sugar. We have sold most of our other products.

The nonfat dry milk, at one point, as you know, was in the neighborhood of 1.3 billion pounds. And the last time I checked, which was a couple of weeks ago, we were down to about 700 million pounds, so there is about a 50 percent reduction there. Last week, we sold about 30 million pounds of nonfat dry milk back into the marketplace. We sold some 3 year old nonfat dry milk, which is a quality issue, for about 68 cents a pound, last week. We have been selling newer nonfat dry milk in the high 80's a pound, the price support level is 80 cents. It is our philosophy, and it has always been, as we acquire CCC stocks, to sell them back into the marketplace. We couldn't do it with nonfat dry milk, because the surpluses were so large, we were taking so much in that it was not possible. But now it is, so we have distributed an enormous amount of nonfat dry milk. A small portion of that has been sold back into the market. Most of it has gone to foreign trade assistance, or it has gone to the livestock feed program that we have been operating in the intermountain and western States. We have distributed since April of 2003 over 300 million pounds of nonfat dry milk in the cattle feed program that we are operating in the western States.

As we look out over the next couple of years, I think there is every opportunity to take that surplus, the stocks held by USDA, to 0.

Mr. DOOLEY. Terrific. That is good news. The other issue that I don't know if you can help me understand a little bit is that there has been some controversy on the renegotiation of the standard reinsurance agreement. And I struggled with this a little bit, but it appears that what the administration, the Department is trying to do is to, is to strike an agreement that ensures that the Government is getting the best deal on this, due to their calculations and analysis that the insurance companies have been receiving what might be considered a fairly generous contract, in terms of the returns.

Mr. COLLINS. You are raising an interesting issue. The standard reinsurance agreement, in the world of insurance, is a big deal. Outside of that, I don't know how much attention it gets, but it is a contract between the Department of Agriculture and 14 insurance companies, the ones who deliver Federal crop insurance.

And it is basically a contract that defines lots of things. It defines kinds of information they have to provide for financial oversight, but it also defines the financial terms in which we support the insurance companies, the administrative and operating expense reimbursement, and then the reinsurance terms that cover the amount of risk that we are going to share with the insurance companies.

I would say that over the last couple of years, from a policy point of view, the administration had drawn the conclusion that you had just drawn, that the underwriting gains to the insurance companies were sizable and persistent, and that some of those should go back to the taxpayer. So, over the last couple of budgets of the President, there were specific proposals in the President's budget. One was to reduce the administrative and operating expense. Another was to cap underwriting gains. Neither of those were enacted, but it was a policy position, clearly, for the last couple of years of the administration, to recapture some of those underwriting gains.

So the administration made the decision to terminate the existing standard reinsurance agreement. That decision was made in December 2003. It is terminated effective July 1, 2004, and to enter into a negotiation. That has resulted in two draft proposals from the administration to the insurance companies. In the first draft proposal, the administration proposed saving some $70 million through the standard reinsurance agreement. The second draft proposal, the savings is $41 million. There is a third draft proposal that will come out imminently, within the next day or two, and you will see whatever is in it.

But I think the idea in the last proposal was to share some of those underwriting gains with the taxpayer in two ways, by reducing the administrative and operating expense reimbursement for high coverage level policies, 80 to 95 percent coverage, and to take 5 percent of the gains, or 5 percent of the losses, whichever it might be, from the companies. Yes, it has been debatable, because it is not the status quo. It is reducing the compensation to the companies, and the question is can they manage that? Some companies will say no, they can't. We will see if others say they can by signing the agreement. But sure, it is a give and take that is going on right now, and as a result of that, you are reading about it, because it is not just a negotiation that happens within a room at USDA. It is a negotiation that is played out by people writing to their Congressman and everything else, and so, yes, it is getting a lot of publicity.

Mr. DOOLEY. I applaud the administration for at least engaging in this negotiation, and I have some confidence that whatever your final product is, you are going to have plenty of companies that are going to be out there willing to offer this product to our farmers.

Mr. MORAN. The absence of Republican members of the subcommittee is, I think, unrelated to the interest in agricultural policy or the popularity of the subcommittee chairman. But we are competing with the presence of the President of the United States, visiting with the Republican conference this morning.

But we are joined by the ranking member of the committee, Mr. Stenholm, and I recognize you for question. I recognize the gentleman from Iowa, Mr. Boswell.

Mr. BOSWELL. I appreciate that you explained that, because I was a little worried. Now, I feel very much relieved, because I would have thought——

Mr. MORAN. The gentleman from North Carolina, Mr. Etheridge, is recognized. Mr. Boswell.

Mr. BOSWELL. Thank you. Thank you very much. We are neighbors, in case you were wondering, and we actually get along very well.

Dr. Collins, Mr. Stenholm and I and others were over in China a little over a year ago, and one of the points we made, and we were pretty distressed about, is the deficit, and then the fact that at that time, that they were exporting grains, subsidizing and so on. And I notice you have got part of your statement here about there are declining stocks, but I wondered if you could bring us kind of up to date on what you think is going on in this arena. Are they able to feed themselves? Are they going to be requiring more imports from us, and impact on trade deficit, and so on, because we got to talk to folks. I remember Congressman Stenholm, pretty high level, and the people in the United States won't sustain this $100 plug billion deficit, and we talked pretty plain about—you have got hungry people, but you are exporting feed grains.

The markets that we kind of think ought to be ours, at least we ought to be fairly competitive for, could you talk about that a little bit?

Mr. COLLINS. Sure. Happy to. When you look at the world of agriculture today, you can't help but focus on China first, and other countries like Brazil and so on. We do run a current account overall deficit with China. Our imports from China are about $100 billion a year. We export about $30 billion a year to China.

Mr. BOSWELL. This is strictly agriculture?

Mr. COLLINS. This is everything.

Mr. BOSWELL. Everything.

Mr. COLLINS. Yes. We are running a pretty sizable deficit with China overall on everything. China itself runs a deficit with everybody else. A lot of people don't realize that. They think because they have a big surplus with us, that they have a surplus with everyone, but they don't. They run big deficits with lots of other Asian countries. But China, when you look at China, you see some very remarkable things. You see the end of some trends, and the beginning, perhaps, of some new trends. It may be a little early to say where those new trends are going to be, but the remarkable things that have happened start in the mid–1990's. In the mid–1990's, China was alarmed about its declining grain production and its declining stocks, and so they implemented a program that has various titles—the one I like is the Governor's Grain Bag Program—to try and increase grain production, and they were very successful in the mid–1990's. They did boost their grain production, and they escalated their grain stocks to the point where their grain stocks were equal to 100 percent of the year's consumption, which is extraordinary. For us, if we have 10 or 15 percent, we are comfortable.

Well, subsequent to that, then, China embarked on a more market-oriented posture. They were interested in joining the WTO. We negotiated a WTO accession agreement with them. They realized that they had far too many grain stocks to hold onto, and they started to open up their internal economy. They started to get rid of some of the controls they had on production. They started to let private buyers, rather than the Government, buy commodities, such as in the cotton market.

The result of that has been a dramatic change in acreage allocation within China, a very sharp decline in grain acreage over the last 5 or 6 years, an increase in fruits and vegetables production, which they are exporting to other Asian countries. They are becoming a very big fruits and vegetables exporter to other Asian countries, like Japan.

So this has given us an opportunity. I think it has given us an opportunity this year, and it is going to give us potentially a much bigger opportunity in years to come. One of the new trends, perhaps, is wheat imports. China's wheat acreage has dropped very sharply, and they were never much of a wheat importer in recent years. This year, they are importing wheat. Next year, we think they are going to import something on the order of 7 million tons of wheat, which ought to make Mr. Moran and Kansans happy. So I think there is a change in the trend on wheat.

On corn, their acreage of corn has come down. You mentioned feed grains. Two years ago, China exported 15 million tons of corn. They were a big competitor of ours. It hurt our corn price. They took away Asian markets. This year, the 2003–04 year, they will export about 8 million tons, and their stock levels of corn are dropping dramatically. We think that in the 2004–05 year, they will export 4 million tons. They might not export anything. And then beyond that, I think they could be an importer.

This is making a huge difference for us. It is giving us much stronger export prospects for corn, and it makes the corn market look very fundamentally strong for the next couple of years. And then, of course, there are soybeans and cotton, which everybody knows about. In my statement, I mentioned through the first half of this fiscal year, we have exported $3.6 billion of corn and soybeans alone to China. That is a staggering figure. It is way above anything we have done in history.

So, for the year as a whole, we will export at least $5.5 billion worth of product to China, which is three to four times what we did just 2 years ago. The question becomes are they going to continue on this path of market orientation and relying on imports for some of these products, or will they reverse themselves, and somehow try to become more protectionist.

I think they are in a difficult spot. The things that I read from China's leadership is—and I have heard this from a number of different sources—they want more cotton. They want more soybeans. They want more corn. I mean domestically produced. They want more domestically produced cotton, more domestically produced soybeans, more domestically produced corn, more domestically produced wheat, and they want to maintain their fruits and vegetables production for export.

They can't do it. They don't have the land, and their population is growing too fast. And their incomes are rising. They are buying more automobiles, more cars, building more roads, building more buildings, and their population diets are changing. And I just see no escape, they will buy more food products, more agriculture products from us, and they will continue to export the manufactured products that they are so good at, and that they can do. And of course, cotton textiles is one of those which will have a negative effect on our agricultural economy, but——

Mr. BOSWELL. Dr. Collins, thank you. My time is up.

Mr. COLLINS. OK.

Mr. BOSWELL. And I didn't want to offend the chairman.

Mr. COLLINS. Sorry. I could——

Mr. BOSWELL. Maybe I will get a second round.

Mr. MORAN. It is not likely.

Mr. BOSWELL. Think about it.

Mr. MORAN. We are joined by the gentleman from Nebraska, who is a member of the full Committee on Agriculture, and I would ask unanimous consent that he join us at the dais and be able to ask the panelist questions.

With no objection, so ordered. The gentleman from Nebraska, Mr. Osborne.

Mr. OSBORNE. Thank you, Mr. Chairman. Thank you, Dr. Collins, for being here today, and I have more of a comment than a question. I read in your testimony that prices are better, and they certainly are in terms of soybeans and corn. Cattle have held up pretty well, with the BSE problems factored in, and a large part of that has been due to the drought.

We have had to reduce our livestock herds in the northern part of the country, and a lot of the dry land crops have been relatively nonexistent over the last 3, 4, 5 years. So some of the price increases is due to that factor. And we are seeing a lot of stress, because the number of insurers is rapidly declining, and of course, the amount of insurance you can buy declines, the protection you get declines with each year of drought, so I am sure you are aware of this.

I just wondered if you had any comments, any thoughts, as to what we might do to alleviate that situation, because we are in, on the one hand, a very good situation, but if you don't have a crop, you don't have much ability to capitalize.

Mr. COLLINS. Mr. Osborne, you raise an excellent point. Even though, for much of America, we have had very good crops to go along with the high prices and record high income, we have certainly had a persistent drought in the western States. Our meteorologists at USDA consider the drought we have had since 1999 to be among the three worst drought periods in the last 100 years.

So, there are producers that are certainly affected by this, and it has had an effect on cattle prices. There is no question that the continuing liquidation we have had in cattle has partially been because of the lack of forage. We have been reducing our cattle numbers from late 1996, for almost 10 years now. Every single year, we have a 50-year low in our calf crop, and of course, that means less beef production and that means higher beef and cattle prices, so that is certainly a factor.

Another factor we don't have good insurance tools for livestock. There is no question about that. I think our insurance tools have improved dramatically for crops, but they are very weak for livestock. But even for crops, we have the problem that you mentioned of multi-year losses, which causes your actual production history, your APH yield, the yield that you get your insurance coverage on, it causes that to go down, and so you get less coverage.

And there is a second thing. We set our premium rates based on APH relative to county averages, and when your APH goes down, your premium goes up as well, so you get a double hit. You get a higher premium, and you get a lower level of coverage. It is interesting you raise that point, because just, I think, a week ago, or two weeks ago, the Risk Management Agency held a conference in Kansas City, which Mr. Moran was kind enough to speak at, where we kicked off a process to try and solicit the best ideas from researchers in America on how to deal with this multi-year yield loss problem. And we have received a number of very good proposals. I have been on the review team that has been reviewing those proposals, and we are going to award a substantial amount of money to some private sector companies to develop a solution for the multi-year yield loss problem.

Now, we have told them that the solution we want them to develop shouldn't be constrained by law, that they can come up with something that might even require a change in law, so we are looking for the most creative ways we can to come up with a solution to the multi-year yield loss problem.

It is not an easy thing, because if truly, the actual risks of production are reflected in that lower yield, then if we do something to inflate that yield, we won't have an actuarially sound program. So we want to balance the actuarial soundness of the crop insurance program against the need to provide affordable good production insurance to producers. And so, we are working on that, and unfortunately, it is a slow process in the insurance world.

Mr. OSBORNE. Thank you. I yield back, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Osborne. The gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman. Let me thank you for holding this very important meeting.

Mr. Collins, during the hearing on trade we held here yesterday, the National Milk Producers raised a question, a criticism against USDA. I realize this hearing is not on that today, or comments, but I want to ask a question on it, because I think you are in a position to maybe shed some light on it. Because they were critical, because the Dairy Export Incentive Program, in their opinion, was not used effectively. They said that only 16 percent of all available butterfat DEIP awards had been used since 1995, regardless of the low or highs in the market pricing, and that USDA never made all the awards available when prices were really at a 25-year low point.

And it is my understanding that the European Union used its export subsidies for dairy, regardless of the market conditions. In the fight for markets, I believe that we should all use whatever tools we have in our arsenal to fight for our producers, and for our farmers. And the 2002 farm bill provided the USDA with these tools, and I know that dairy is, as I said, not part of this.

Can you give us some understanding in how USDA decides when and how to use these tools that are in their bag?

Mr. COLLINS. I can certainly try. I would say that the Dairy Export Incentive Program is viewed as a very important program by the Department. We do have periodic meetings to review the performance of the program, and determine the allocations for the program. There was a time when, I think, the DEIP year is a July, June year, we would make those allocations early in July, and allocate the total amount that is permissible under our WTO commitment for nonfat dry milk and for cheese.

Then, we went to an alternative scheme where we started allocating periodically over the course of the year, so that there would be more equitable opportunity for people to be able to utilize the DEIP program. We have, in my recollection, allocated all that is available under the WTO commitment for nonfat dry milk and for cheese, but it is true we have not done so for butter and butterfat, I would have to go back and look at the record of the last several years to try to remember what is our deciding factor at each point, but my general recollection is that we have been concerned about price spikes in the butter market. Butter prices have been very volatile. It is a thin market, a small proportion of milk goes into butter. Butter is an important ingredient in many products, ice cream of course is one. And there is also an issue about whether the stocks are available, who holds them, what is the quality of the stocks. And so, it is a question of price and stock availability that we looked at, and I think that we did not allocate butterfat, generally because we felt that we didn't want to impose an undue harm on our domestic processing industry.

Mr. ETHERIDGE. Would you mind going back and review that, and get that to me in writing?

Mr. COLLINS. I would be happy to take a more detailed look at that.

Mr. ETHERIDGE. Please. Thank you.

[Mr. Collins submitted the following for the record:]

BUTTER DEIP

Mr. Etheridge:

Please review the activity under the Dairy Export Incentive Program (DEIP) for butter in relation to market prices.

Response:

DEIP activity for butter is influenced by several factors. First, there is an overall limitation on volume and value of DEIP activity under the Uruguay Round Agreement on Agriculture. The quantity limit is expected at any time to present more of a constraint than the value limit. The WTO limits for butter and related products by year (July 1-June 30) are as follows:

Year	Metric Tons
2003-04	21,097
2002-03	21,097
2001-02	21,097
2000-01	21,097
1999-00	25,475
1998-99	29,854
1997-89	34,232
1996-97	38,611
1995-96	42,989

Second, the level and variability of U.S. and international butter market prices influences the decisions to utilize the DEIP for butter. Because butter is rarely purchased under the milk price support program and few government stocks are held; butter is an important ingredient in many processed products; and butter prices have been highly variable, misuse of the DEIP could cause sharp price volatility and spot shortages of butter. Consequently, USDA has been very cautious in using the DEIP for butter. Figure 1 illustrates the monthly average price for butter, with the length of the vertical bars indicating the range over which trades occurred during the month. From the chart, it is clear that butter prices have consistently been highly variable interannually, seasonally and even monthly. Table 1 provides monthly data on the average wholesale butter price, the butter support price and the volume of DEIP butter awards. The data reflect USDA's strategy of using the DEIP for butter to support producer butter prices through exports without encouraging undue price volatility that would burden butter users.

Figure 1. Butter (DB) Monthly Average Prices, Chicago Mercantile Exchange, cents per pound

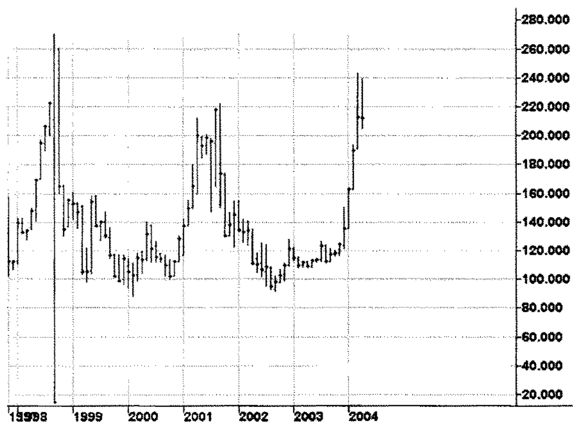


Table 1. Butter Prices and DEIP Activity

	Wholesale Butter Price $/lb.	Support Price $/lb.	DEIP Bid Acceptance Metric Tons
1996 Jan.	0.79	0.65	0
Feb.	0.72	0.65	0
Mar.	0.72	0.65	0
Apr.	0.76	0.65	0
May	0.95	0.65	0
June	1.37	0.65	0
July	1.52	0.65	0
Aug.	1.53	0.65	0
Sept.	1.53	0.65	0
Oct.	1.40	0.65	0
Nov.	0.82	0.65	0
Dec.	0.81	0.65	0
1997 Jan.	0.90	0.65	671
Feb.	1.07	0.65	158
Mar.	1.16	0.65	0
Apr.	1.02	0.65	3,442
May	0.97	0.65	306

	June	1.13	0.65	4,737
	July	1.10	0.65	2,739
	Aug.	1.09	0.65	2,497
	Sept.	1.11	0.65	3,453
	Oct.	1.47	0.65	3,597
	Nov.	1.59	0.65	2,050
	Dec.	1.30	0.65	967
1998	Jan.	1.19	0.65	261
	Feb.	1.39	0.65	43
	Mar.	1.35	0.65	20
	Apr.	1.38	0.65	18
	May	1.55	0.65	0
	June	1.86	0.65	0
	July	2.01	0.65	0
	Aug.	2.17	0.65	0
	Sept.	2.76	0.65	0
	Oct.	2.41	0.65	0
	Nov.	1.74	0.65	0
	Dec.	1.41	0.65	0
1999	Jan.	1.42	0.65	0
	Feb.	1.32	0.65	0
	Mar.	1.29	0.65	395
	Apr.	1.03	0.65	0
	May	1.13	0.65	0
	June	1.49	0.65	0
	July	1.34	0.65	0
	Aug.	1.40	0.65	0
	Sept.	1.34	0.65	0
	Oct.	1.12	0.65	2,006
	Nov.	1.07	0.65	0
	Dec.	0.92	0.65	930
2000	Jan.	0.91	0.65	1,172
	Feb.	0.92	0.65	904
	Mar.	1.02	0.65	251
	Apr.	1.07	0.65	0
	May	1.25	0.65	35
	June	1.24	0.65	0
	July	1.18	0.65	0
	August	1.19	0.67	0
	Sept.	1.17	0.67	0
	Oct.	1.15	0.67	0
	Nov.	1.65	0.67	0
	Dec.	1.37	0.67	0
2001	Jan.	1.25	0.67	0
	Feb.	1.39	0.65	0
	Mar.	1.57	0.65	0
	Apr.	1.82	0.65	0
	May	1.87	0.65	0

Mr. ETHERIDGE. Let me move to another piece, because you alluded to it a few moments ago. All of us are acutely aware of fuel prices, we understand the spikes, but it is tough when that spike turns into a plateau and it keeps spiking up and up and up. Can you give us some understanding of how this is going to impact agriculture? I know our farmers, with tobacco and all the other things we are getting ready to have tremendous expenditures that weren't figured into their market plans when the year started. I think we are headed for some real problems in rural America, as a result of these tremendous energy costs. It is going to affect everything they do. Can you give us some understanding of that?

Mr. COLLINS. A couple of things. Certainly from a macro point of view, very high oil prices is an external shock to our economy, and it can affect consumer demand. It can affect consumption. It could affect agriculture in that way.

Mr. ETHERIDGE. Because it takes consumer dollars out——

Mr. COLLINS. Second, it affects agriculture directly, because agriculture is a user of energy, and it is very differential across crops and enterprises, in how that effect plays out. But generally, just to give you an illustration of how it might play out, the major energy components that farmers buy are agricultural chemicals, fertilizers, fuels, oils, and lubrication, and electricty. Farmers spend about $30 billion a year on those items out of total production expenses of about $195 billion.

If I zoom in on just one of those, the one you mentioned, fuel, farmers in 2003 spent $8.5 billion on fuel and lube. Now, if you look at the Department of Energy's current forecasts for diesel prices, which is the primary fuel farmers use, for 2003, diesel prices averaged $1.51 a gallon. For 2004, the early May Department of Energy forecast for 2004 is $1.67 a gallon for diesel. That is an 11 percent increase. So that means the $8.5 billion farmers spent on fuel would become roughly $9.5, or roughly a billion dollar increase in fuel expenses. That is a lot.

And then, of course, there could be higher——

Mr. ETHERIDGE. And currently, the fuel prices are higher than that, in some areas.

Mr. COLLINS. They are higher than that in some areas. This is an annual average forecast that the Department of Energy just put out. And of course, the timing of that could be off. Because farmers could be using more fuel at planting time, when the prices are higher. And then, of course, there would be higher electricity costs, higher fertilizer costs as well. We know nitrogen costs are higher. They are not as high as they were in the spring of 2001. They are about 15 percent lower right now, but they are still high.

So, all these things added up, you are probably talking about a couple of billion dollars more in production expenses for farmers this year. The good thing, of course, is that farm income is very strong. If net cash farm income turns out to be about $60 billion, then $2 billion of increase production expenses may be tolerable. But it still could fall differentially on different producers and in different areas of the country.

Mr. ETHERIDGE. Thank you, Mr. Chairman, and I would say that is true, but if you are an individual farmer, as you say, differentially, you may be the one in the bottom of that spike, and you just got crushed. Thank you, Mr. Chairman. I yield back.

Mr. MORAN. You are welcome, Mr. Etheridge. The gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman. Mr. Collins, I apologize. This may be a duplicated question, but I think you were talking about the long averages, where the average yields are down during some drought conditions earlier, and I have heard you say before that becomes a part of the actuarial table, and is built into that scenario. The problem I have with that is like if it is a company that has been losing money for 5 or 6 years, and all of the sudden well, we say our new business plan is, well, I guess we are just going to lose money, because we have been losing money for the last 4 or 5 years. We have been in a period in some parts of the country, particularly in west Texas, where we have had a fairly long run of weather conditions that are not conducive for production in drought years. But the problem is is it has relegated that risk management program to not a risk management program for many of those producers. Although their lender is still required, I am not sure why, because really, it doesn't even cover the cost of really preparing the land, in many cases.

We can't just keep saying well, it doesn't fit our tables. It is going to be expensive. We have got to really give some serious consideration of how we do that, because otherwise, we are just saying to those people, we know you are failing, and we are going to let you continue to fail. What are some of the things that we can do?

Mr. COLLINS. All I can say to your comment is that I agree completely with what you said. That right now, if I were to look at the two highest priorities we have in Federal Crop Insurance Corporation program, they are to develop better insurance tools for forage, for rangeland, and for pastureland, because we have a huge portion of the country that has been in persistent drought and those tools are not available, and to deal for crop producers that also been in those areas, with their multiple losses year after year after year, with successive losses.

The actual production history that a producer has that determines their coverage is based on 10 years or less of data, and so if you get a run of 3 or 4 or 5 years of bad crops, which might be really atypical, because we are in a cycle, then you are going to pay quite a penalty for that, in higher premium and lower coverage.

So, I did mention that we, after talking about this for some time and not doing much about it, we did hold what we call a pre-solicitation contract conference in Kansas City a couple of weeks ago, where we had about 45 people in attendance, and we said to them look, we want to give away a lot of money, and we want to give money to people who can come up with a great idea on how to address this problem. Because so far, as we have looked at, we haven't found a simple fix, because of the process. Whenever we want to make a change in the crop insurance program, we have to send it out for expert review, by law, and the expert reviewers have to include actuaries. Actuaries want to see long histories before they change their mind about anything. And so this is an issue where there is a small history involved that is causing an effect, and so we have not been able to find a simple solution for this.

We have things in law already. Congress has attempted to deal with this problem by putting plugs in the APH formula, and putting limitations on the amount the APH can drop from year to year. The APH can only drop 10 percent from year to year, for example. So, there are already some things that we do with these plugs and limitations and caps, but that hasn't improved the situation enough for some producers. Some producers, that has helped, but it hasn't been beneficial enough for all producers, and that is the most recent thing we did—the plugs and the limitations.

And so now we are trying to look beyond that, even if it requires a statutory change, and so all I can tell you is in the insurance world, making a change is like watching paint dry. It takes a long time, but we are trying to expedite this, and we are going to announce, we hope, fairly soon, the awarding of some contracts to develop policy provisions that we can then take to the Federal Crop Insurance Board of Directors, which we can then hopefully use to make changes in these programs.

Mr. NEUGEBAUER. Does it make sense to think about, when we declare areas disaster areas now, because of these weather-related issues, we make them eligible for low interest rate loans, and Federal opportunities there. Does it make sense to, in the future, consider making a part of that some kind of a special crop insurance option also available as a part of that, as a part of a disaster package? As it is getting more and more difficult in the United States Congress to come up with ad hoc disaster assistance, but if we could build that into the program in the future, does that make sense to consider that?

Mr. COLLINS. I don't know the answer to that. I think we have been concerned about proposals in the past where people have suggested that we come in ex post, after the disaster is recognized, and kick up the insurance coverage. That is a difficult concept for a program that we are trying to run on insurance principles. It is coming in after you know that you are going to have a loss, and providing a benefit. That is not really an insurance program at that point. That is a disaster program.

Could you identify an area—I don't know the answer to that question. It is an interesting idea. Maybe there is something you could do, where there has been a succession of bad years. You don't know what the next year is going to be like, but because of the past history of the last few years, you are willing to provide an alternative insurance tool. Maybe that is one of the kinds of proposals we ought to be looking at. I am not sure at this point.

Mr. NEUGEBAUER. Well, this would not be bringing the benefits in post——

Mr. COLLINS. Right.

Mr. NEUGEBAUER. —the event, but allowing maybe a 1-year or some kind of a gap for, because what is becoming difficult for those producers is getting financing for that next year.

Mr. COLLINS. I think your objective is the same as ours. We are trying to be able to come up with some mechanism that will allow someone who has experienced 3 or 4 years of drought to look ahead to the subsequent year and be able to have better protection, and whether that is figuring out how to do something with their insurance yields covered, or whatever else, I am not sure yet. That is the exercise that we have just kicked off. And whatever ideas you have on this, you ought to give them to us, so we will put them into the mix.

Mr. NEUGEBAUER. We will be. Thank you, Doctor.

Mr. MORAN. Thank you, Mr. Neugebauer. The gentleman from Texas, Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman. Following up on the last question also, Mr. Dooley's earlier, a lot of concern regarding the management decisions going into the crop insurance changes that are now being suggested. If you are wrong in the final determination, and I am concerned, because of the declining numbers of companies willing to offer crop insurance, if you are wrong, then we are going to have to be looking at something different than what we have been talking about. So I certainly hope the final decision will be one that will continue to have folks willing to write crop insurance. If not, we are in big trouble.

Mr. Dierschke, with Farm Bureau, will testify later today quoting a Montana State University projection of a decrease in farm income of 17 to 28 percent this year, because of increased fuel costs. That in the range of what you were saying earlier, what we might expect based on current estimations of price?

Mr. COLLINS. Not for the Nation as a whole. That would be way too large, in my estimation.

Mr. STENHOLM. Way too large. And I am going to assume that you cannot answer the question of the front page story today, concerning Canadian beef being allowed in despite a ban. I am going to assume you can't, and are not prepared to offer that today, but I understand there will be some conversations later today, in which we will be able to get the answers to that and some other serious matters that we continue to want to pursue, in light of BSE.

The final parts, not so much a question of you, Dr. Collins, there are those that contend that it has nothing to do with the farm bill, and I have to put on the record, Mr. Chairman, that the budget last year opened the farm bill. It didn't open it in the commodities section, because as you have testified, and it is music to my ears, the cost of the farm bill is down about $20 billion from what was projected, and that is good news in this day.

But the problem is that in the appropriations process, we reopened the farm bill last year we put limitations on water. We cut watershed rehabilitation—budget restraints—$80 billion—rural strategic investment program, 100 percent of the $100 million. Last year, broadband loans, value-added grants, things that we have been trying to help our various agricultural enterprises to meet the changing times, and in the judgment—these are good investments, but all $40 million of that got cut last year by the appropriators, and I am not throwing rocks at the appropriators. They had to do that. Now, some on this committee, Mr. Chairman, do not understand that we are going to have to do at least that much this year, just to get us back to square one, and then, the estimates run anywhere from $200 million to $600 million or $700 million additional in the budget that passed yesterday.

And if that happens, that is going to cause a reopening of the farm bill, at least those components that we are talking about here. I would ask you on that, in the President's budget, which I assume you had something to do with on agriculture, in the area of EQIP, you recommended a $200 million cut, even though we have a $3.1 billion backlog. Do you remember what the justification might have been in your mind for making that cut, $200 million out of $1.2 billion that we put in the farm bill?

Mr. COLLINS. I cannot remember an explicit justification on it. I would only say generally that we proposed cutting many farm bill programs in the President's budget, and it was simply because of the trade-off that we had to make. We had budget targets that had to be met, and there was a scarcity of funds, and so there was simply a trade-off. Here, you are talking about a program that a few years ago, was in the tens of millions of dollars. In the first year, under the farm bill, it went up to $400 million, and then it was going to escalate all the way up to $1.3 billion. This is a very rapid escalation, even with the $200 million cut. That was way above the historical levels of funding for that program.

Mr. STENHOLM. Then let me ask you a different one. On watershed rehabilitation, which it is a known fact that we have a pretty good backlog, and in some cases, we have got a safety concern. In the farm bill, we put in $150 million. You suggested cut out the whole $150 million.

Mr. COLLINS. I can't explain that proposal to you. I do not remember that one, Mr. Stenholm.

Mr. STENHOLM. All right. I think we will probably be revisiting that, hopefully, you working with the committee, as we battle the agriculture appropriations decisions that will be forthcoming in that, because these are some of the priorities that we are going to have to make. There is no question about that, that we are going to have to make some tough decisions, but some of these, this reopening of the farm bill has some real dire implications for rural America, not the farm price supports, not the subsidies but the other things that I think you and I both agree, because we worked very hard putting it in the Bill.

Mr. COLLINS. Well, one of the benefits of the budget resolution in 2002 was we had an opportunity to address some of these deficiencies that we hadn't for many years, in rural development and conversation, in energy, and so it is painful not to fund those at the level envisioned by the farm bill. I have been involved in the President's budget in debating a number of these points, the energy programs in particular. And so it has been difficult, but we are in a world where we have a $500 billion Federal budget deficit, and there are budget restraints, and so it has just been very hard to make these trade-offs.

Mr. STENHOLM. The thing that I think you and I would both agree on, though, the irony of what you just said, because we worked awfully hard together, and many hours in putting this together. We did have the opportunity in a budget, we lived within the budget. We are now $20 billion below, but we are still being forced to make these kind of decisions in areas which do not make sense for rural America.

But that is the nature of the beast.

Mr. MORAN. I recognize the gentleman from Georgia, Mr. Burns.

Mr. BURNS. Thank you, Mr. Chairman. Thank you, Dr. Collins for your insight and expertise. Your testimony, I think we all concur, that generally, the farm bill is working, and it has some concerns. Certainly, we talked about risk management. We talked about energy, and that is a big concern in the South. Let us pull the corollary out there and say, talk about productivity gains in conjunction with the increase in just direct costs, whether it is fertilizer, or whether it is chemical, or whether it is fuel. Have we seen substantial productivity gains to help offset some of those direct costs?

Mr. COLLINS. Yes, we have, for a number of crops, not every crop. Obviously, corn is a perfect example. We have had steady increases in yield growth in corn. Corn is vulnerable to the high energy costs, because it is so nitrogen dependent, yet for this year, for example, for 2004, we are forecasting a yield of 145 bushels an acre, national average, which is stunning. Under the last farm bill, the program payment yield was 100 bushels an acre, and so we are way up on corn, and there is a nice trend growth in yield. For some of the other crops, the trend growth hasn't been as strong. We had a record wheat yield last year. For soybeans, unfortunately, there is a crop that has been quite flat, and part of the reason for that, I think, when you look at it from a national perspective, is we have seen soybeans move into some higher risk production areas, in the western Plains States and in the northern Plains States, and there the soybeans have become vulnerable to some of the dry weather that we have seen, and that has reduced the overall yield. Cotton is one where the yield growth has been fairly slow. Rice is one where we have been setting records on yields.

So, it varies from crop to crop, but there have been some opportunities with new seed varieties and cultural practices by producers to offset some of these increases.

Mr. BURNS. And again, none of us like the prices that we are having to deal with right now at the pump, or the farmers certainly for diesel, but I think one of the good things that has come out of just the technology advances of the last half-decade has been the reduction in the demand for, let us say fuel costs, as you pass over a field and the multiple times at which you have to do that. And I think that is positive.

Mr. COLLINS. Absolutely.

Mr. BURNS. You point out that one of the concerns is if market prices decline, but yet, your testimony indicates that we are seeing tremendous commodity price advances, at least in the near term.

How does that look over a longer period of time?

Mr. COLLINS. Well, I always have to temper a statement about current bullishness with some concern. We were just talking, before this hearing started, about how unusual this period of time is that we are in right now. And as I look back over my entire professional career, I have only seen this three times. I have seen markets like this in the 1970's when the Russians entered world grain markets. I saw markets like this in the mid–1990's, when we had global bad weather, and booming world economy, when we set record grain prices, and now, in 2004. So three times. So this is a rare event. I am not going to predict that this is going to continue at this rate. We are not going to continue to have the current class 3 milk price is almost $20 a hundredweight. Soybean prices are around $10 a bushel. We are not going to have $20 milk prices and $10 soybean prices over the next few years. So, there is going to be some pull-back in some of these prices. Producers need to enjoy this now, take advantage of this now, put some savings aside, and make the critical investments they need to make, but we will have some pull-back over time.

Agriculture is cyclical. It is cyclical because of three primary factors. The first is weather here and around the world. The second is economic growth here and around the world, which affects food consumption. And the third is policy changes that affect supply and imports by critical countries around the world. And all threee of those factors change from period to period. They are all lined up right now, with China making its decision to be more market-oriented, and the world economy growing 3.3 percent this year, and production down a little bit, because of the problems in Brazil, the problems we had last year, the problems the Europeans had last year, the problems the Russians had last year.

So all these things have come together to give us this incredible period right now, including in livestock, which is extraordinary. It is not going to stay this way for a long period of time, but I do think over the next year or two, global markets are tight enough that we ought to have pretty robust prices. I think the one real risk factor I see is simply soybeans, and I would have to say that, because the Brazilians are having an unusually low crop this year, and I think they are going to have an enormous increase in acreage planted this fall, and if they have a normal crop next year, they will come back with a very big crop, and we can see some divergence between corn and soybean prices.

But on the whole, I think it looks pretty good, and for livestock as well.

Mr. BURNS. One followup question, Mr. Chairman. On the issue of types and sizes of producers, your testimony indicates might be an area. You have a concern about payment limitations and the issue of the farm size and the fact that we really are into a larger business than the small acreage that we may have seen 50 years ago, or even longer than that?

Mr. COLLINS. It is a real point of debate and concern, depending on your seat, where you sit and how you see this. The question was already raised by Mr. Peterson about our definition of a family farm, and it comes into that. I mean, $750,000, is that a family sized farm? That was part of the proposed rule. In today's agriculture, surely that is a family-sized farm for a lot of enterprises.

With respect to payment limits, that is a philosophical debate. Where should the payments go? Should they follow production in the commercial size operations, or should somehow they be involved in being focused on smaller or less income-advantaged operations? There are economic considerations in making that decision, but by and large, it comes down to simply a policy call on who do you want to support in American agriculture. Do I see a failure there in the farm bill? No, I don't.

I almost hesitate to bring this up. We did have a payment limit commission that was created by the farm bill, which did put out a report which thoroughly investigated these issues, and put out a big fat report, which I would be happy to provide you if you ever want it. Cure your insomnia. But it tried to sort through a lot of these issues, from an economic efficiency point of view, less so from an equity point of view.

Mr. BURNS. Thank you, Mr. Chairman.

Mr. MORAN. Dr. Collins, I believe that is our final question from the members of the subcommittee. Very grateful for the time you have devoted to our hearing this morning. You speak with credibility. We very much appreciate any time that we have the opportunity to visit with you, and appreciate you setting the stage. Maybe the gentleman from Indiana does have a question. Mr. Hill?

Mr. HILL. Yes, thank you, Mr. Chairman. I originally wasn't going to ask a question, but I think I will, because I have a lot of vegetable growers in my district, and they are being adversely affected by this restriction that we put into the farm bill about what farmers can grow, in terms of whether they grow corn and tomatoes, for example.

Have you seen any evidence that these restrictions have hurt the vegetable canning industry at all, because I am picking up some of this back in my district?

Mr. COLLINS. Having been involved in this issue for many years, it predates the 2002 farm bill. It was an issue in the 1996 bill as well. I don't have any empirical evidence. I don't know what is happening. I do know that at the Department, we have had a lot of fruits and vegetable producers, or program crop producers who want to grow fruits and vegetables, complain to us about the limitation on planting fruits, vegetables, and wild rice on program crop acres.

Based on that, I assume there are producers that aren't planting what they would like to plant. Now, whether that means the canning industry has not been able to get their adequate supplies or not, I just don't know. I have not seen the evidence on that.

Mr. HILL. Well, I can tell you that the canning industry is being affected adversely by all this.

And I am on a bill with Congressman Pence, who is also from Indiana, as I am, to try to, in my words, correct what we did in the farm bill, and I would hope that members of the this committee would take a look at that bill, and maybe hold a hearing on it, Mr. Chairman.

Mr. COLLINS. There is a dilemma there. I mean, if you have historical fruits and vegetables history, you can grow tomatoes, but you give up program payments acre for acre. The problem is if you don't have the history. Then you have to drop out of the farm program completly, and you lose all your payments on everything. And so it is a heavy penalty if you don't have a history of growing tomatoes.

Mr. MORAN. Thank you, Mr. Hill, Dr. Collins. The gentleman from Indiana intruded upon my compliment of you, and I don't intend to restart it, but we are delighted that you were here, and appreciate your testimony.

Mr. COLLINS. Thank you.

Mr. MORAN. And we will now call upon the second panel to come to the table. Our second panel consists of two witnesses, the president of the Texas Farm Bureau, representing American Farm Bureau, and the president of the National Farmers Union. We are delighted to have both of you here, and we would recognize Mr. Frederickson for his testimony.

STATEMENT OF DAVID J. FREDERICKSON, PRESIDENT, NATIONAL FARMERS UNION, ST. PAUL, MINNESOTA

Mr. FREDERICKSON. Thank you very much, Mr. Chairman, Chairman Moran, and Congressman Peterson, and members of the subcommittee.

On behalf of the farmer and rancher members of the National Farmers Union, I am very pleased to participate in this oversight hearing on the Farm Security and Rural Investment Act. I would use the title of the Clint Eastwood film "The Good, the Bad, and the Ugly" to describe our opinion of the 2002 farm bill. Our concerns are primarily related to the issues of implementation and questions about the future of U.S. farm policy. The FSRIA represented a compromise that reestablished a portion of the funding baseline that agriculture had lost over the previous two decades.

The commodity title enhanced and expanded the availability of countercyclical support and now appears to be running fairly smoothly. It is, in fact, responsible for billions of dollars in reduced outlays for agricultural programs, compared to projections made in 2002, and that has been thoroughly visited here this morning.

However, the authorization for the Milk Income Loss Compensation program expires in the fall of 2005, and it is imperative that Congress consider how best to address the continued market instability within the dairy production industry, resulting from both domestic considerations and dairy product imports.

The farm bill authorized an expansion of conservation programs, including new incentives for working lands. We supported these efforts, but are now concerned that USDA seems to be dragging its feet in the implementation process, as evidence by the controversial refunding for technical assistance, and the development of regulations to implement the Conservation Security Program.

The legislation also provided programs to encourage rural development. However, inadequate appropriations and the management of the application process for many of the loan and grant programs are reducing the ability of the legislation to achieve its objectives. The FSRIA mandated that USDA implement a 2-year voluntary country of origin labeling program for beef, pork, lamb, fruits, vegetables, seafood, and peanuts, and establish a mandatory program by September 30, 2004.

After the administration undertook a campaign to frankly discredit the law, Congress reneged on its commitment to agricultural producers and consumers alike by prohibiting the use of funds to implement the law for an additional 2 years. As we engage in trade negotiations that may further open our borders, confront food safety and biosecurity issues, and consider a national animal identification system, it is critical that producers have country of origin labeling available to differentiate their product from those which are imported, and that consumers be provided information regarding the origin of the food products they purchase. We urge Congress to reverse its previous action and restore the funding and the commitment to implement an effective and efficient mandatory country of origin labeling program.

The farm bill failed to provide a mechanism to address weather-related production losses, and the administration has opposed emergency help for producers unless the cost of assistance are offset by reductions in other agricultural programs. Only in Washington can money be taken from one pocket, such as CSP, and put into another, as limited disaster assistance, with the claim that new economic help has been provided.

While the budget situation makes it difficult to fund disaster assistance, we should acknowledge that much of the reduced cost of the farm program has been due to higher commodity prices, resulting in part from the production losses suffered by U.S. farmers and ranchers. Congressman Rehberg and other Members of Congress have suggested actions that would provide partial relief to these producers, and we fully support these efforts. In addition, Congress should take action this year to provide additional emergency assistance to those who sustained uncompensated losses in each of the 2001 through 2004 production years. We also urge Congress to devise a more predictable and sustainable approach for addressing future production losses.

In conclusion, Mr. Chairman, we are concerned that the current improvement in producer commodity prices may be taken for granted, as it was in 1996. First, we must recognize that the effective safety net continues to represent only a fraction of a producer's total production. Second, if history is any indicator, the Federal deficit is likely to result in a budget reconciliation process, where agriculture will once again be asked to contribute a disproportionate share of any reduction in domestic spending, and I believe Congressman Stenholm spoke to that issue just a few minutes ago. And thirdly, the ongoing trade negotiations, particularly in light of the expected WTO decision concerning the U.S. cotton program suggests we must remain vigilant in maintaining our ability to design, fund, and defend adequate and effective agricultural policies.

Mr. Chairman, thank you for providing this forum to discuss the status of the Farm Security and Rural Investment Act of 2002, and I would certainly be happy to respond to any questions.

[The prepared statement of Mr. Frederickson appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Frederickson, thank you very much for your testimony and for joining us. Now, Mr. Dierschke.

STATEMENT OF KENNETH DIERSCHKE, PRESIDENT, TEXAS FARM BUREAU, REPRESENTING THE AMERICAN FARM BUREAU FEDERATION, WACO, TX

Mr. DIERSCHKE. Thank you, Mr. Chairman, and members of the House Agriculture Committee. I thank you for inviting the American Farm Bureau Federation to participate in the hearing today. I am Kenneth Dierschke. I am president of the Texas Farm Bureau, and I am a member of the American Farm Bureau Federation Board of Directors. I am a cotton farmer from San Angelo, Texas.

Now, let me start by stating that the farm bill is working. This mid-term review conveys the committee's commitment to agriculture and the current farm bill. We appreciate your continued support and efforts to maintain safe and stable agricultural and rural economies. The farm bill helps American farmers and ranchers weather financial storms, and it provides unprecedented funds for our Nation's conservation needs.

When the members of the committee began hearings to consider writing the current farm bill in 2000 and 2001, farm commodity prices were at historic lows. Certainly, the farm economy has improved. However, there are areas terribly affected by droughts, and all farms are affected by sky-high input costs.

The farm bill has performed as intended. A safety net is available to farmers and ranchers when commodity prices are low. When prices are high, the market functions without additional funding from the Government. Net farm income in 2003 was almost $20 billion more than 2002. This year's income is projected to be about $12 billion more.

The farm bill's actual spending level is below the Congressional Budget Office scoring for the first 3 years. CBO says the actual spending level for the bill is $15 billion less, or 30 percent lower than when the bill became law. We anticipate outlays to be lower than expected in 2005. The Farm Bureau opposes reopening the 2002 farm bill.

New international rules on domestic support programs are currently part of the ongoing Doha Round of trade negotiations in the World Trade Organization. The Farm Bureau strongly supports these negotiations as a means to achieve harmonization of trade-distorting domestic subsidies, the elimination of export subsidies, and new market opportunities.

We would prefer to negotiate a WTO agreement that accomplishes our objectives with respect to domestic supports, and then modify domestic programs accordingly. The Farm Bureau is opposed to all limitation on farm program payments. However, we support the payment limitations as passed in the farm bill, and strongly oppose any adjustments to those limits. If limitations on benefits are made more restrictive, many farmers would not benefit from the improved safety net.

The farm bill provision that prohibits planting of fruits and vegetables on program crop acres must be maintained and implemented with the same spirit with which it was included in the farm bill. Any weakening of this provision would destabilize fruit and vegetable markets that do not receive farm program benefits.

Farm Bureau remains a strong supporter of a new type of conservative incentives program. We believe agricultural producers must receive assistance to help defray the cost of ongoing environmental improvements and regulation. The Conservation Security Program will assist farmers in achieving environmental goals and reward us for improved environmental performance.

CSP should be available to all producers, and it should be funded and implemented as a nationwide program. There is never a closed season when it comes to attacks upon U.S. farm policy. Purely out of self-interest, other countries routinely criticize U.S. farm programs. American farmers, however, increasingly must explain the merits of our farm programs to critics here at home. The Farm Bureau has been consistent in support of true reform of the three pillars of world agricultural policy: export subsidies, market access, domestic support. So let me be very clear. Farm Bureau will adamantly fight any attempt to unilaterally cut the U.S. farm programs. Each farm program dollar turns over 3½ times in our local communities.

Production agriculture will continue to fuel the economic engine that powers rural America. Our farm programs provide a foundation on which rural development can build. Without the farm program as a base, however, the footings of any standalone rural development and initiative would crumble.

In conclusion, major midstream changes in farm bill programs would be devastating, not only to farmers and ranchers, but to the rural economy as well. Overall, we are pleased with the functioning of the Farm Security and Rural Investment Act of 2000, and will continue to work with Congress to maintain funding in order to fully support and administrate this farm program.

Thank you.

[The prepared statement of Mr. Dierschke appears at the conclusion of the hearing.]

Mr. MORAN. Thank you, Mr. Dierschke. The question I will ask is slightly different than what reality would suggest, but it would help me in establishing some priorities.

If we had an additional dollar to spend, or as perhaps the gentleman from Texas would suggest, if we had one less dollar to spend, what would your priorities be? If we are going to put a dollar more into agriculture, would we put more money into the commodity title of the farm bill? Would we put more money into risk management, crop insurance? Would we put more into conservation? Would we put more into rural development?

Mr. DIERSCHKE. My answer to that is that we have gone through quite a process in developing the 2002 farm bill, and I think there were lots of input into this from every section of the country, and we think that it is working right now, and if there are more dollars available when it comes time to do another farm bill, we will be available with some answers on that. Thank you.

Mr. MORAN. Mr. Frederickson, any thoughts?

Mr. FREDERICKSON. Yes, Mr. Chairman, thank you very much, and a good hypothetical question. I would rather present this question in the positive light rather than the negative.

I think disaster assistance is so important, that it become part of the unified approach to support production agriculture, that if there was an opportunity to do that, rather than asking us that represent farm organizations to shamelessly grovel year after year after year for disaster assistance, I think would be an absolutely important addition, if there were extra dollars.

Mr. MORAN. I appreciate those sentiments, as a member of Congress who comes from a State tremendously adversely affected by weather conditions, and as one who fought for a year with Mr. Rehberg and Mr. Osborne and others, trying to get disaster assistance accomplished. Just a tremendous undertaking, one that I think has become even more difficult than the time several years ago, in which we had a marginal success. I then would call upon the gentleman from Minnesota for his questions.

Mr. PETERSON. Thank you, Mr. Chairman, and you kind of stole my question. I shouldn't have let you go first, Mr. Frederickson, I appreciate your comments. I have introduced a bill that would set up a permanent disaster program, similar to what we have in FEMA, where the Secretary would have the authority when she declares or he declares a county a disaster, that they could go ahead and make the payments, which I think would actually cost us less money in the long term, if we had something like this. In light of what is going on with the renegotiation of this SRA agreement with the crop insurance, and I am even more concerned, because as I understand what they are doing with this renegotiation, it is going to impact the companies that are doing business in these higher risk areas, like North Dakota, Kansas, Texas, and I just think that makes it all the more important that we look at some kind of a way to deal with this. And do you agree with that? I assume you do, and have you guys been weighing in on this SRA issue?

Mr. FREDERICKSON. Yes, we agree, and we also have been weighing in on the SRA issue.

Mr. PETERSON. Mr. Dierschke, how do you feel about this permanent disaster idea? Have you looked at that at all, your organization?

Mr. DIERSCHKE. Back to my statement a while ago about the farm bill working, we know that in farming in Texas, that disaster is part of our life. But let me tell you that we agree to some things, in earlier discussions, that we are going to live with.

Mr. PETERSON. So, you don't think there is any need for us to have any additional disaster protection?

Mr. DIERSCHKE. No, sir.

Mr. PETERSON. But if we have a disaster, you will probably be one of the first groups up here asking for extra help, right?

Mr. DIERSCHKE. We plan not to.

Mr. PETERSON. Well, that has not been my experience, but that would be good.

Mr. Frederickson, in light of what has happened with these commodity prices, during the farm bill, we worked together to try to get higher loan rates, as opposed to some other ideas, do your members, still, in light of where the prices are, do they still support going to higher loan rates as opposed to having direct payments?

Mr. FREDERICKSON. Yes.

Mr. PETERSON. So this hasn't changed their position.

Mr. FREDERICKSON. Mr. Chairman, Mr. Peterson, it is a genetic thing.

Mr. PETERSON. Well, when prices go up, there is going to be a time when prices go down.

Mr. FREDERICKSON. Certainly, that is the main thing, so——

Mr. PETERSON. Well, I am going to stop my questions there, Mr. Chairman.

Mr. FREDERICKSON. I might also add Congressman Peterson, that on your permanent disaster assistance, we, the National Farmers Union, endorse your efforts and we appreciate your efforts to move forward in that regard.

Mr. PETERSON. Thank you. I appreciate your answer about genetics.

Mr. MORAN. The gentleman from Nebraska, Mr. Osborne.

Mr. OSBORNE. I would just like to ask both of you your positions on the CAFTA and Australia trade agreements, and then maybe also any thoughts you have on animal ID.

Mr. FREDERICKSON. Mr. Chairman, Congressman Osborne, on the CAFTA agreement we, as an organization, have a position that does not support the trade agreements unless, again, all of the issues are put on the table. We did have a chance to visit about that yesterday in the full committee, but that has been and continues to be our position, unless all of the issues are put on the table. With the Australia free trade agreement, we are also very concerned, first of all, as we discuss that, we felt that there wasn't a great opportunity, Congressman, for U.S. products to move that direction, but felt there was a significant opening for their product to move this way. And then, of course, with the issue of New Zealand and Australia becoming somewhat borderless, we see third country process possibly taking place also. So, our position, again, has been no.

Mr. DIERSCHKE. On CAFTA, yes, we support it. We ran some economic analysis on it, and it looked like it is positive for us on our trade, so we did support it. On the Australian Free Trade Agreement, we looked at it, and we do have some problems with it, phytosanitary issues and those kind of things, and we are continuing to look at anything else on that particular agreement.

Mr. FREDERICKSON. And animal ID, I believe was the second part of the—or, I'm sorry.

Mr. OSBORNE. I just wanted to follow up. So, you are saying on Australia, that you are just undecided, and you will probably take a position, the Farm Bureau, before some time, some date, or what are you saying there?

Mr. DIERSCHKE. Well, I am saying that we will continue to look at it, and if some of those issues are addressed, we will probably make a decision at that time.

Mr. OSBORNE. All right. Thank you. All right. Well, any thoughts you gentlemen have on animal ID would be appreciated.

Mr. FREDERICKSON. Well, Mr. Chairman and Congressman Osborne, we think animal ID and country of origin labeling ought to come together. We certainly feel that the bulk of the cost for animal ID, because of it, in our opinion, being a homeland security issue, ought to be borne here, but we indeed support it, and expect that at some point in time, it will occur. We certainly are concerned about data privacy and all of those issues, and I know that the Members of Congress are also concerned about that, so our position is that we do support, but we would like to see it combined with the country of origin labeling.

Mr. DIERSCHKE. Well, it appears as though animal ID will be exempted for the most part, and it also appears as though there will be some Federal help. I realize that those are the two big issues, privacy and funding. And nobody knows yet what level of funding, or even what the total cost is going to be, I am glad to hear that you are concurrent with the idea that it is probably going to happen, and we had better do it the best way we can, and Farm Bureau's——

Mr. OSBORNE. Yes, we are essentially the same position on animal ID. We have the privacy issues, and we have the cost issues also. Of course, we would like to see the Government bear the full cost of it, but we realize that we may have to share in some of the cost. We do support animal ID.

Mr. OSBORNE. And where are you on country of origin labeling, the Farm Bureau position?

Mr. DIERSCHKE. We do support country of origin labeling, and we knew that the Congress would press that in January, and we would like to see that proceed.

Mr. OSBORNE. And you would like to see it mandatory rather than voluntary, is that correct?

Mr. DIERSCHKE. Well, I knew you was going to ask me that. Our kind of position on that, our State, as president of Texas Farm Bureau, our position is that on a voluntary country of origin labeling, and American Farm Bureau is mandatory. So, I did purposely leave that off of my testimony.

Mr. OSBORNE. OK. Thank you, Mr. Chairman. I yield back.

Mr. MORAN. Thank you, Mr. Osborne. The gentleman from Iowa, Mr. Boswell.

Mr. BOSWELL. I am going to pass to Mr.——

Mr. MORAN. Oh, you did tell me that. The gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman. I thank you gentleman for being here today, also, and I want to thank you for coming, and Mr. Dierschke, let me thank you for your comments regarding trade as well, and certainly in your comments regarding farm policy, and changing it. We talk about change, and then want to bring the reforms to the WTO negotiating table, in my opinion is sort of putting the cart before the horse. And you alluded to that in your comments. I think it is understandable for the Europeans to take that approach, because their subsidies are a large part of the problem, and they want to reflect it to someone else. They have a need, I think, to demonstrate to the world that they have seriousness in this whole issue of agricultural reform. I am not really sure that is true, but be that as it may.

For this Congress to make such changes, though, without securing commitments to agricultural reforms from other WTO members would, in my view, be tantamount to unilateral disarmament. If our farmers opening up everything before we have a chance to allow farmers to have a level playing field to participate, and I can see why some other nations want to take that approach, but let me ask you this. Who in the U.S. is advocating for this position? I mean, who is it that is pushing for that?

Mr. DIERSCHKE. I probably can't answer that question. I can probably get that to you in writing if you would like.

Mr. ETHERIDGE. OK. I would.

Mr. DIERSCHKE. OK.

Mr. ETHERIDGE. Please.

Mr. DIERSCHKE. We will do that.

Mr. ETHERIDGE. OK. Thank you. That is my only question.

Mr. MORAN. The gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman. I think we are all excited about the way that the farm bill is performing, and I think it is important to get the word out to the American people that it is working also. One of the things we realize is that we are in the third crop year of a 6-year farm bill, and next year, if not then, the following year, we will have to begin to think about reauthorizing this farm bill, and one of the things that occurs to me, and I would like both of your opinion on that, is that we by and large hear good things from producer groups, pretty much across the board, with some exceptions, obviously, that the farm bill is working. It brings some consistency to it. We went through a lot of wrangling to get the 2002 farm bill, and so it appears to me that the ability to, if it is working good, getting the message out. In fact, recently, when I was with the President of the United States, he even recognizes that it is working better and that is not a bad advocate to have for farming either.

If we were rolling forward, if it was this time next year, and we were going into a new farm bill, would you support moving forward with reauthorizing this existing bill, or would you support going back and revisiting a number of different issues? If you had to choose between those, what direction would you go?

Mr. DIERSCHKE. I think our organization right now, we are real pleased with the way the farm bill is going. And there may be a few little tweaking, and I am not prepared to go into those right now, but there is probably going to be some discussion when it comes back, and yes, we would want to participate in that discussion when it happens.

Mr. FREDERICKSON. Mr. Chairman and Congressman, while of course we would want to see higher loan rates, and there are a few things, certainly, if we come out of the next couple of years without addressing the issue of ad hoc disaster assistance, we would certainly be there to pressure that issue. And so, yes, I think, I mean, it is all negotiable, I suspect. I don't think we would just blindly step up and say yes, it is working. Because I think farm bills have always worked, my experience anyway, during times of high commodity prices. There is not that much to complain about. So, if we see commodity prices going down, certainly, there will be issues that will be on the table.

Mr. NEUGEBAUER. Followup on that, Mr. Frederickson. When I have talked to producers, and I say if you had your choice of, like you just said, going back and renegotiating the farm bill and trying to add a disaster program and that, with the understanding that probably if you do that, you probably open up for discussion things like payment limitations. The producers, I guess, to the man or woman, say if there is a chance it opens up the payments, then I don't want to go there. What would be the position of——

Mr. FREDERICKSON. Well, we historically had a position that we agree that payment limits ought to be put in place, so we would probably welcome that discussion.

Mr. NEUGEBAUER. That is all my questions, Mr. Chairman.

Mr. MORAN. Thanks, Mr. Neugebauer. The gentleman from Texas, Mr. Stenholm.

Mr. STENHOLM. Go back to the animal ID and the country of origin labeling question that you both were asked, and I think the perception is, Mr. Frederickson, that my approach to a voluntary is contrary to the direction that the National Farmers Union wants to go, but I do not believe that it is, and I put it in this context for you. And since Mr. Dierschke is on both sides of that question, depending on which hat he is wearing here today, this fits. I think on the national identification, I advocate that we have a voluntary mandatory program. The voluntary part of it is let us agree among producer groups, commodity, animal by animal, how it best works, pork, beef, sheep, goats, et cetera, and once we have agreed as individual producers, that is the most efficient, and we have agreed on how the sharing of the cost is going to be, then it shall become mandatory. Because you cannot have a voluntary animal identification program that works, and since that is for animal health reasons.

Now, you made the point that that ties kind of into COOL, and I agree. And I would like to see us pursue, and that is why we are pursuing a voluntary mandatory program for country of origin labeling.

Having the Federal Government mandate it, as we have seen, has created some real problems, and any time you have additional cost, it always comes back to the producer, and if I am going to pay it, I would like to be darn sure that it is going to be an efficient expenditure, and therefore, I would hope that we, as we continue to look at this, since we will be revisiting this and other questions in the agriculture appropriation bill, that we continue to pursue that, because clearly, I think all of agriculture would like to see as much labeling of content that makes sense, and country of origin as we possibly can. And that is the goal that we will continue to strive for, and as this—pursues, and we will be revisiting that on the agriculture appropriation bill, I would hope that everybody keeps an open mind and keeps working together. That is certainly this member's intent, working with all of the producer groups here, and knowing where you come from. I think we are on the same chapter, if not on the same page, as yet. But we will continue to pursue that.

Mr. Chairman, you asked a very good question a moment ago, that I think a lot of us are going to need to start taking a good hard look at very soon. If we had some additional dollars, how would you spend them? The problem is we are not going to have any additional dollars. That is the problem. And the sooner that we all recognize that, and adjust our own thinking to that, you can't advocate additional spending for things that our folks back home want, and then pass budgets like was passed yesterday, that guarantees deficits as far as the eye can see. That means there is going to be constant pressure on spending, and agriculture is not going to be exempt.

We have had a history and tradition on this committee of being rather bipartisan in regard to what is good for agriculture, and we still are, but I think it is time for all of us to get realistic about the state of the economy. We talked about energy prices a moment ago. They are going to take a chunk out of agriculture producers this year. Interest rates are soon going to start up. When they do, the party's over for agriculture, regarding what we have had. Mr. Frederickson, both of you talked about the Conservation Security Program that was supposed to be an unlimited futuristic program. It has now been limited, last year, very strongly limited.

So therefore, you are asking for things, you are saying don't reopen the farm bill. Some of us don't want to reopen the farm bill, but it got reopened again yesterday, folks, and anybody that keeps saying it didn't is living in a dream world.

But here we are. The sentiment that everyone is expressing here today is we have a farm bill that is working, and I wish that we could find a way to have all of it work. The commodity part is working beautifully, as was intended. We are having some real cutbacks coming in the area of rural development, that our rural communities are suffering from, and you both have testified to that, and I hope that we will find ways to address that in as positive a way as we can.

Mr. MORAN. Thank you, Mr. Stenholm. The gentleman from Michigan, Mr. Smith, is recognized.

Mr. SMITH. I think just following up on the gentleman from Texas' comments, it would be my prediction that a lot of what Charlie says is correct, and that the next farm bill, whether we survive the rest of this 6-year farm bill, or whether it is reopened, is going to be much more lean than what we have seen in the past.

A couple things that are hitting us is the overspending of Congress, and that kind of debt, you can call it overspending, or you can say we should increase taxes to accommodate that kind of spending. Either way, it hurts agriculture, it hurts business, if we simply start raising taxes without having the discipline to reduce spending.

So I think agriculture and the farm community and farmers and ranchers in this country needs to start looking at how they are going to survive in a world economy with less Government programs to help with their cash flow on their farming operations.

You join that with what I see, increased pressures from the developing world, through WTO, to insist that to some extent, most all subsidies all trade-distorting, is going to end up with the kind of trade negotiations that is also going to put pressure on lower subsidies coming from in the United States of America. So, combined with our cash flow problem, the increasing debt, and the burden of increasing financing of that debt. Currently, we are paying $300 billion a year interest on the debt. It represents 14 percent of our total Federal spending now. That could very well double in the next dozen to 15 years, depending on where interest rates go, and where annual deficits go adding to the debt. So it seems to me that farm organizations and commodity organizations need to start concentrating on how can we reduce some of the overzealous regulations at the State and Federal level. How can we reduce some of the imposition of taxes at the State and Federal level, including property taxes at the State level, to lower some of those costs, if we are going to be able to continue to compete in commodities?

So, instead of asking questions, I sort of have got, Mr. Chairman, on my soapbox, because I do see some real dangers, and the challenge of farm organizations to start looking more sharply at where we can reduce some of the overzealous regulations, and where we can reduce some of the overzealous taxes. Where we can accommodate farm workers in a better way, whether it is the program that Chairman Goodlatte has developed, or other programs that allow us to compete in hiring the kind of help we need on our farms and ranches.

And with that, Mr. Chairman, I will just make my speech, and I won't ask a question, unless the gentlemen have a reaction.

Mr. MORAN. I thank the gentleman from Michigan. I believe that concludes the questioning of this panel, and we thank you for your testimony and your presence here today.

I would ask that the third panel come forward.

This panel consists of Mr. Mark Gage, the president of the National Association of Wheat Growers; Mr. Dee Vaughan, the president of the National Corn Growers Association; Mr. James Vorderstrasse, the president of the National Grain Sorghum Producers; Mr. Bryan Moery, a member of the Board of USA Rice Federation; Mr. Bart Ruth, past president of the American Soybean Association; and Mr. Woody Anderson, chairman of the National Cotton Council.

Mr. Gage, I believe we will begin with you, and thank you very much for being here.

STATEMENT OF MARK GAGE, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, PAGE, NORTH DAKOTA

Mr. GAGE. Mr. Chairman, members of the committee, my name is Mark Gage, and I farm in eastern North Dakota, and I raise Spring wheat, barley, and soybeans. I am the president of the National Association of Wheat Growers. I am pleased to have the opportunity to testify on behalf of the wheat growers of the United States on the farm bill of 2002.

The National Association of Wheat Growers understands the challenges under which the 2002 farm bill was crafted, and we appreciate the program, that offers stability to the agricultural community as well as the food supply of the Nation.

The commodity title of the farm bill allows farmers to make projections and business decisions with some degree of certainty, so they can focus on producing an abundant, economical, and safe food supply. However, weather conditions sometimes interfere with the production, and neither efficiency nor technology will produce a crop. Thus, farmers must have an improved crop insurance safety net.

All these aspects of the farm bill require adequate funding. The National Association of Wheat Growers believes the 2002 Act is good policy, and we believe it is funded at the lowest possible cost. Just as a farmer would be ill-advised to plant less seed than is required, this country would be ill-advised to partially fund or partially implement this legislation.

Mr. Chairman, a lot has been said concerning large farms. These are family operations, where most of America's production occurs. Family farmers who have increased size of their operation, in order to remain viable, full-time producers should not be penalized because of their business decisions. Farmers are stewards of the land. While the size of farms have grown, care for the land has not diminished, thanks to farm program. However, missing is implementation of the Conservation Security Program. We believe the CSP is an investment in the future of working and productive lands, a wise investment for the Nation.

With a trade deficit of over $46 billion, the fact that over 50 percent of American wheat is export, wheat growers need open and fair trade. It is important that programs such foreign market development and market access programs are funded, helping our efforts to develop markets.

Another area is food aid, not only because it reduces hunger, but also makes the world a safer place. This belief was expressed by Norman Borlaug: “If you desire peace, cultivate justice, but at the same time cultivate the fields to produce bread; otherwise there will be no peace.”

Publicly funded agricultural research is more vital today than ever, to meet the challenges, including bioterrorism threats, crop disease, providing ample, safe, and a nutritious supply, and creating new uses, such as energy, from agricultural crops. All these benefits have accrued to the American taxpayers at bargain prices, costing each consumer $0.132 per day. However, due to a carefully crafted commodity title, which works as a safety net for producers, CBO estimates that costs over the last 3 years or 30 percent, or $15 billion less than originally projected.

There has been a great deal of publicity criticizing this farm bill. Much of the criticism flows from an agenda inconsistent with good public policy. We believe that the American people have not had the opportunity to form opinions with the benefit of the facts. The National Association of Wheat Growers has initiated discussions with other farm groups, and we have developed an initiative called Home Grown. The purpose of this is to defend, but more importantly, celebrate the benefits of good farm policy.

Mr. Chairman, and members of this committee, we thank you and your staff for the long hours and careful thought you give to the future of United States agriculture.

[The prepared statement of Mr. Gage appears at the conclusion of the hearing.]

Mr. MORAN. Thank you very much, Mr. Gage.

Before I recognize Mr. Vaughan, I would like to recognize the gentleman from North Dakota, for purposes of introducing Mr. Gage.

Mr. POMEROY. Mr. Chairman, this is something I have never done in 12 years in Congress, and that is introduce a speaker after he is done speaking, but I was inadvertently detained in the hall.

I do want you to know the man we have just heard from is a wonderful leader in North Dakota. Himself a farmer raising hard red spring wheat, barley, and soybeans, he has served in a leadership capacity for the North Dakota grain growers, and brought 10 years of real leadership involvement in that organization into his work with NAWG, and so now, as he assumes leadership of the National Association of Wheat Growers, it is really right from the ground up that Mark has enormous experience.

I think, regardless of the commodity, here in the Agriculture Committee, when we have producers that take time away from their own fields to get involved on behalf of the universe of producers that have the stake in promoting the commodity, it sure helps, and the agriculture economists can bring us an awful lot that is of great value to us, but you just can’t beat the farmer stakeholder advancing on behalf of all farmers of the particular commodity at issue.

So, Mark has been a great champion for wheat, and we love him. I know that he will be back with us on a number of occasions in this new capacity, and thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Pomeroy. As a Member of Congress from a wheat State, we are delighted to have the leadership of some folks in North Dakota.

Mr. Vaughan, we now recognize you for your testimony.

STATEMENT OF DEE VAUGHAN, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, DUMAS, TEXAS

Mr. VAUGHAN. Good morning, Mr. Chairman, members of the committee. I appreciate the opportunity to appear before you this morning on behalf of the National Corn Growers Association. I am Dee Vaughan, a corn producer from Dumas, Texas, and I am currently serving as the president.

Today, corn growers throughout the United States find themselves in a much more favorable commodity market due to a variety of factors, tremendous growth in ethanol production, increase in exports, and record production levels last year. Although NCGA remains very concerned about drought conditions in the western Corn Belt, and export opportunities for U.S. cattlemen, this year's accelerated planting season appears to be getting us off to a very good start.

Recent projections for this year's corn crop indicate an increase to 71.9 million harvested acres. Corn utilization is expected to climb to a record level, exceeding 10.5 billion bushels. Corn for the production of ethanol is the major driver behind the increase, with the industry setting new production records each month. The outlook for corn is certainly encouraging, but growers continue to face serious challenges. Along with increased cost for seed and pesticides, escalating energy prices are eroding profit margins.

Just last year, the entire farm sector experienced a 30.8 increase in fuel expenses. NCGA is particularly concerned by the 58 percent rise in the price of natural gas in 2003, a primary ingredient for fertilizer, and also, a fuel for irrigation, it shows few signs of returning to the previous price levels, and it is causing serious cost side pressure to U.S. farmers and to the fertilizer industry.

The bottom line is that rising energy costs are largely responsible for driving up overall production expenses by over 6 percent in 2003. Consequently, NCGA remains committed to getting a comprehensive energy bill passed, and we call on the U.S. Congress to send a bill to the President this year.

I do not need to remind this committee of the many risks that farmers confront year in and year out. Fortunately, we do have a new countercyclical payment program in this farm bill that better protects our growers when prices plummet. Following several years of ad hoc economic assistance, today's farm policy offers more predictability and fiscal discipline, one that limits assistance to producers for when aid is most needed. In fact, if prices remain at current levels, corn growers will be required to repay an estimated $696 million in advance countercyclical payments.

As growers, we appreciate having this safety net, but we would much prefer to get our rewards from the marketplace. Another key component of the farm safety net is the marketing loan assistance program. The USDA is to be commended for making long overdue adjustments in county loan rates that more accurately reflect local market conditions. When NCGA has advised the Department of disparities and posted county prices and loan rates between counties and States, the FSA has worked very cooperatively with our growers to develop appropriate solutions. NCGA believes, though, that further analysis is needed to ensure that the marketing loan program keeps pace with changes in local markets.

As you review current U.S. farm policy, I cannot overemphasize the value of Congress staying the course. Growers must make long-term capital investment and business decisions based on programs they expect will not be significantly altered. Midcourse changes, including proposals to further restrict farm support payments are extremely inequitable. NCGA continues to support the limitations that are in this farm bill.

In addition to an improved safety net, I must emphasize NCGA's interest in the other farm bill titles that assist producers wanting to move further down the value added chain. NCGA is therefore concerned by reduced funding for value added agriculture product market development grants and renewable energy initiatives. We are also disappointed with the slow progress toward implementing the Rural Business Investment Program and Federal procurement of bio-based products. These programs offer considerable potential for attracting new venture capital to rural communities and building markets for biomass industries.

One of the major reasons NCGA so strongly supports the 2002 farm bill is that a wide range of priorities are addressed in a comprehensive, balanced way. We would like to thank the committee for its leadership in supporting a significant commitment to conservation on private land, an expanded Environmental Quality Incentives Program, the Wetlands Reserve Program, and the creation of the Conservation Security Program. NCGA believes CSP presents a great opportunity to increase conservation and improve environmental results for farmers and the public. However, if implemented as proposed, most corn growers would not quality for a CSP contract. The rule is not written for the average commercial farmer, though they could provide the greatest benefits.

NCGA is particularly concerned with the definition of an agricultural operation under the current rules. NCGA also is concerned about the continuing struggle over funding for technical assistance. Last year, the EQIP program was authorized at $700 million. The Appropriations Committee reduced it to $695 million, and then year end funding was only $558 million, because EQIP was required to contribute funds for technical assistance requirements of Conservation Reserve and Wetlands Reserve Programs. NCGA firmly believes that each conservation program should pay its own way.

Mr. Chairman, I have attempted to provide the committee an objective assessment of the farm bill and an overview the corn industry's performance, market forces, and how producers respond to them, ultimately determine our success. Today's farm bill, though, enables U.S. corn growers to make further advances in food production, renewable energy, and conservation practices that would not be possible otherwise.

Our farm programs have facilitated new opportunities that have resulted in additional benefits for both producers and the American taxpayer. Finally, I want to thank you for conducting this hearing. We appreciate your strong leadership and commitment to U.S. agriculture, and ask for your continued support of this landmark legislation.

[The prepared statement of Mr. Vaughan appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Vaughan, thank you very much. Mr. Vorderstrasse.

STATEMENT OF JAMES VORDERSTRASSE, PRESIDENT, NATIONAL GRAIN SORGHUM PRODUCERS, HEBRON, NE

Mr. VORDERSTRASSE. Thank you, Mr. Chairman. On behalf of the National Grain Sorghum Producers, I would like to thank the chairman of the subcommittee for holding this hearing and allowing us the opportunity to discuss USDA's implementation of the farm bill and its impact on the sorghum industry. My name is James Vorderstrasse. I am president of NGSP, and I farm 1,600 acres near Hebron, NE, raising sorghum, soybeans, and wheat, along with livestock production and CRP.

NGSP believes that the farm bill is working for producers, and we would encourage the committee not to make any policy changes at this time. We hope that lower spending on farm programs will be considered in farmers' favor by Congress as it works to balance its budget. Actually, we wish CBO would give the Agriculture Committee credit for not spending that money.

We do, however, have some particular concerns that we would like to share with the committee in our effort to strengthen USDA's support for sorghum. NGSP believes that correcting inequities in the programs would genuinely give producers the freedom to raise any crops that suit their marketing plans and conservation needs, rather than basing those decisions on a particular aspect of the farm program.

Of utmost importance to NGSP, we ask the committee to encourage USDA to follow Congress' lead and review and change outdated programs that affect sorghum producers. Some programs that are in need of review and change are county loan rates, sorghum's utilization in conservation programs and risk management programs.

First, NGSP encourages the subcommittee to ask USDA to equalize the loan rates between sorghum and corn on the county level. USDA is not interpreting the farm bill as we believe the committee intended. For example, my loan rate for sorghum is $0.08 below corn's loan rate, despite sorghum being prices at or above corn for the last 4 years.

NGSP's members are puzzled with USDA's action, since they predicted sorghum's price to be equal to or higher than corn's, and the market is paying more for sorghum. As you can see from the chart which we have at the edge of the table, USDA's world agricultural outlook and supply estimate prices are almost identical. In 2000 to 2001, sorghum was 102.2 percent that of corn; 2001–02, 98.5 percent; 2002–03, 100 percent; 2003–04, 100 percent; projected for 2004–05, 98.2 percent; which averages out 99.78 percent.

Next, USDA programs do not recognize features of sorghum as a water saving crop, nor do they take into account the enormous potential of sorghum as a fuel and food source. Sorghum is grown in the semi-arid regions of the U.S, and is knows as a water sipping crop because it uses less water than other crops.

On the chart at the edge of the table, the yellow colored areas of the map are those that receive less than 20 inches of rain, the Sorghum Belt. Because it is naturally adapted to this region, the risk of raising sorghum is far less than the risk of raising high water use crops. As Mr. Collins stated, high water use crops located in the green areas are moving into the semi-arid or yellow areas represented by the slashed line, resulting in increased water consumption and increased risk of crop failure.

Since 1985, 5 million acres of this land has left sorghum production and gone into high water use crops in this semi-arid region. The other 4 million acres went into CRP. While not all of the acreage losses can be attributed to farm programs, Government policy has played a significant role in the decline of sorghum acres.

Our membership is becoming increasingly concerned about the growing conflict between agricultural and nonagricultural competition for water. The first concern of growers in semi-arid regions of the U.S. is water quantity, not water quality. NGSP believes that sorghum can play a valuable role in water quantity. We ask that the committee and USDA keep this growing conflict over water and the potential benefits of sorghum as an energy source and a non-GMO food source in mind as oversight discussions occur and policy is implemented.

As I mentioned previously, USDA's price predictions show that the sorghum market has changed from the previous price relationship with corn. NGSP asks that the subcommittee work to update its programs, and other agencies to recognize the fact that if other program benefits are not equaled, higher water use crops could continue to replace sorghum in the Sorghum Belt and put agriculture on a collision course with nonagricultural water uses.

A significant amount of water and risk can be saved by encouraging policy that switches from high water use crops to low water use crops in the Sorghum Belt.

In conclusion, NGSP is concerned that crops like grain sorghum are not being rewarded for being a low risk, low water using crop alternative. Policy traditionally has favored high gross revenue, riskier crops over sorghum. Sorghum has more yield stability when compared to higher water use crops in semi-arid agricultural regions, and costs the Government less money for risk management programs. Without corrections to key farm bill programs to better reflect this, what is happening in the country, sorghum is at risk of losing the critical research and support infrastructure it needs to become a more vital part of the sustainable, profitable cropping system that benefits the producers and provides them with other choices.

We would like to thank you and the members of this subcommittee for the opportunity you have given us to present our organization's review of this Farm Security and Rural Investment Act of 2002. NGSP is a strong supporter of this farm bill and appreciates the committee's support, and will be happy to answer any questions.

[The prepared statement of Mr. Vorderstrasse appears at the conclusion of the hearing.]

Mr. MORAN. Thank you. We will turn to Mr. Moery.

STATEMENT OF BRYAN MOERY, MEMBER OF THE BOARD, USA RICE FEDERATION, WYNNE, AR

Mr. MOERY. Mr. Chairman and members of the committee, my name is Bryan Moery. I am a rice and soybean farmer from Wynne, Arkansas. I currently serve on the Board of Directors of the U.S. Rice Producers Group, and a charter member of the U.S. Rice Federation. Mr. Dan Gertson is a rice farmer from Lissie, TX, accompanies me here today. Mr. Gertson currently serves as the vice chairman of the U.S. Rice Producers Association.

I am pleased to appear before the committee today on behalf of the entire rice industry. My testimony represents the consensus position of these organizations with respect to legislation addressing our domestic agricultural commodity programs. On a personal note, I will share with you how excited and honored I am to testify before the Congress for the first time.

In our testimony before this committee on March the 21st, 2001, we expressed concern that rice farmers would not cash flow for lending purposes without additional support from the Federal Government. Congress averted this potential crisis by passing the Farm Security and Rural Investment Act of 2002. We commend this committee and the Congress for its strong support for U.S. rice in approving the 2002 farm bill.

We are pleased to report that in rice country, the farm bill is working as it should by providing an important financial safety net during periods of low prices, such as the 2002–03 crop year. When prices improve, as they have in 2004, the farm bill supports are reduced automatically through the countercyclical nature of the program. Without the support of the 2004 farm bill, the rice farmer in the U.S. would face an uncertain future.

In addition to being necessary and effective, the 2002 farm bill has proven to be budget-conscious. According to the figures recently released by the Congressional Budget Office, outlays for farm and conservation programs under the 2002 farm bill are forecast to be more than $5 billion below the initial CBO estimates for both fiscal years 2004 and 2005.

Congress deserves credit, not criticism, for passing a budget-friendly farm bill. Another matter that was thoroughly debated during consideration of the 2002 farm bill was the issue of payment limitations on farm programs. During development of the Bill, there was extensive media coverage on NBA basketball stars and media moguls receiving Government farm program assistance. Farm bill crafters addressed this issue by including a new adjusted gross income means test that prevents the large corporations, or those deriving substantial income off a farm from receiving farm bill assistance.

Unfortunately, there are those who wish to revisit this thoroughly debated issue. They seek to further reduce payments to some family farmers in a misguided effort to benefit what they believe are more important priorities. This continues to cause uncertainty across the farm agricultural community. We urge Congress to heed the advice of the Commission on payment limitations that was appointed as required by the 2002 farm bill. After months of extensive hearing and review, the Commission determined that no modifications were warranted during the life of the farm bill. The rice industry agrees with this recommendation and encourages Congress to oppose further restrictions on payment limitations.

And we would also urge Congress to maintain an adequate farm safety net for U.S. producers in the face of trade negotiations and dispute resolutions pending in the World Trade Organization. administration negotiators will have to show real, measurable progress in bringing home market access gains before our producers and processors can seriously consider any reduction in U.S. programs.

The 2002 farm bill is a vital safety net to rice farmers, and our industry appreciates the commitment Congress has made to ensuring a sustained domestic food supply.

We urge the committee to avoid further cuts in the support levels embodied in the legislation, and pledge our assistance in meeting this challenge. Again, on behalf of the Nation's rice producers, I want to thank you and the members of the committee for your interest in these important issues, and for the opportunity to testify. Mr. Gertson and I would be glad to answer any questions that you may have.

[The prepared statement of Mr. Moery appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Moery, thank you very much for your debut testimony. Well presented. Mr. Ruth.

STATEMENT OF BART RUTH, PAST PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, RISING CITY, NE

Mr. RUTH. Good morning, Mr. Chairman and members of the subcommittee. I am Bart Ruth, a soybean and corn farmer from Rising City, NE. I am a past president of the American Soybean Association, which represents 25,000 producer members. ASA appreciates the opportunity to appear before you today. We commend you, Mr. Chairman, for holding this midterm review of the 2002 farm bill.

Conditions 2 years into omnibus farm legislation are rarely those anticipated when these bills are enacted. In regard to the 2002 farm bill, budget projections in early 2001 indicated that the agriculture baseline would be inadequate to maintain income support levels at prevailing levels. As a result, Congress added $78.5 billion in budget authority to the baseline over 10 years. In reality, because of higher prices than projected by CBO, spending under the 2002 farm bill has been considerably less than expected, and CBO's most recent forecast is for an additional decline in fiscal year 2004 and 2005 of almost $10 billion.

Proposals to reduce the agriculture baseline through reconciliation in fiscal year 2006 and future years are not consistent with long-term commitments to protecting farm income. To arbitrarily cut support levels would be to violate this compact and place producers at risk.

I would now like to comment on how soybeans have fared under the 2002 farm bill. During the development of the bill, we expressed strongly our views that support levels for program crops should be set at levels that did not influence planning decisions. In this regard, we would suggest that the countercyclical income support program, despite being decoupled from current year production, may still influence planning decisions in advance of the next farm bill.

Since Congress used a recent 3-year period in determining program crop payment acres for the 2002 farm bill, many farmers will assume that this practice will be used again as they make their planning decisions in the next 2 years. As an alternative to base coupled programs, and recognizing the trend toward truly Green Box support in the WTO negotiations, ASA has been looking at moving to fully decoupled payments, and we look forward to working with the subcommittee and the full Agriculture Committee in examining this and other options as we approach deliberations on new farm legislation.

I would now like to comment on other provisions of the 2002 farm bill that are important to soybean producers. ASA has long supported development of programs providing incentives to producers who practice good conservation. The Conservation Security Program was designed to provide producers with incentives to manage working lands for ecological benefits. If implemented as Congress intended, CSP will function properly, and ASA members will benefit from this new and innovative program.

The CCC Bioenergy Program is critical to building new biofacilities, because it allows more affordable purchases of inputs by startup companies. We estimate that if appropriations match the authorization level, more than a dozen new biodiesel production facilities could be constructed throughout the country over the next 24 months.

Section 9002 of the farm bill calls upon USDA to prepare guidelines for use in procurement of bio-based products by our Government. We are hopeful that USDA will advance this program as Congress intended, so we will benefit our farmers, rural communities, and the environment.

The Foreign Market Development program and the Market Access Program received increased funding in the 2002 farm bill. ASA is pleased that FMD is now consistently receiving annual funding at the authorized level of $34.5 million. We are concerned, however, that MAP may not be funded at the $140 million level authorized by the farm bill. The 2002 farm bill attempted to provide a mechanism that would continue the U.S. commitment to feed the world's poorest people. However, in the last 2 years, non-emergency funding for food aid programs has been rapidly shrinking. In fact, our largest food aid program, P.L. 480 title II, has only utilized slightly more than half of the authorized level of aid.

Additionally, funding for the McGovern-Dole International Food for Education and Child Nutrition Program, has fallen from $100 million in fiscal year 2003 to $50 million in fiscal year 2004. The subcommittee has asked us to address whether crop insurance should be incorporated into omnibus farm legislation. Our initial reaction is no. Combining two large, highly technical pieces of legislation into one would make oversight and reauthorization of these programs all that more difficult. For those non-farm constituencies who are quick to criticize agriculture spending, combining the two most expensive pieces of farm legislation into one bill would offer an irresistible target.

In closing, Mr. Chairman, I would mention that ASA has been preoccupied in the last 2 years with several major issues that fall outside the scope of the 2002 farm bill, and these are detailed in our written testimony.

Thank you again, Mr. Chairman, for the opportunity to appear today, and we look forward to working with the committee in the future. I will be happy to answer any questions. Thank you.

[The prepared statement of Mr. Ruth appears at the conclusion of the hearing.]

Mr. MORAN. Thank you very much. Mr. Anderson, welcome back for day two.

STATEMENT OF WOODY ANDERSON, CHAIRMAN, NATIONAL COTTON COUNCIL, COLORADO CITY, TX

Mr. ANDERSON. Thank you, Mr. Chairman, and good morning. I am Woody Anderson, a cotton producer from Colorado City, TX, and I am here today representing the National Cotton Council and currently serve as its chairman.

We are here today to applaud the members of the House Agriculture Committee for developing a visionary farm bill that meets the needs of today's farmers in a fiscally responsible manner while satisfying our international trade agreements.

Committee members worked diligently within budget constraints to develop a bill that was not only balanced across commodities, but balanced production agriculture with the needs of conservation and nutrition programs. The Council strongly supported its passage, and we are pleased to say that the 2002 Act has been a success. It is vital to the structure and the stability of the U.S. cotton industry and to U.S. agriculture as a whole.

Mr. Chairman, as you mentioned earlier, there was a widely voiced misconception when the 2002 bill was enacted that it represented a significant increase in U.S. agriculture subsidization. Contrary to those early projections, the 2002 Act has an enviable track record on spending. To date, budget outlays are much lower than were projected by CBO during the farm bill debate. For fiscal year 2002 and 2004 period, the total spending will be approximately $17 billion less than originally projected.

As Congress addresses the budget deficit in the future, we strongly encourage you to take that into consideration, the responsible track record of the 2002 farm bill, and not allow agriculture to be penalized by its previously achieved savings. The direct payments in the bill provide an effective financial safety net with minimal impacts on overall production and prices. The decoupled nature of the support allows market signals to play a prominent role in acreage decisions.

Planning flexibility remains a positive with our growers, and they can adjust their planting decisions based on economic signals and agronomic goals. It is important to remind the committee that the Council has always opposed payment limits, and worked within the farm bill debate to keep restrictions on benefit eligibility as reasonable as possible. The 10 member Commission established by the farm bill has completed its work, and the Council commends their diligent efforts. The Council agrees with the conclusion of the Commission's report that more restrictive payment limits would have a negative effect on U.S. agriculture and cause instability in production, financing, and marketing.

We urge the committee to consider this report and reject efforts to enact more restrictive payment limits or eligibility requirements. During the debate of the 2002 legislation, an equitable balance was achieved between funding for commodity, conservation, and nutrition programs. The bill authorized a 77 percent increase in spending on conservation programs, and introduced new programs such as the Conservation Security Program. We support maintaining this balance to the extent possible.

Regarding CSP, the Council joined other groups in providing comments to NRCS as rules for implementing a new conservation program have been developed. Cotton producers have expressed strong interest in this program, because it provides an opportunity to maintain and enhance resource conserving practices. However, the apparent complexity of the rules and initial limitations on enrollment will be a disappointment to those outside the targeted watersheds. We are looking forward to working with NRCS as the program is expanded, in an effort to ensure that the program is available to a broad spectrum of producers across the Cotton Belt States.

Since its passage, the farm bill has come under continual attack from opponents, both in the U.S. and from other countries. Most recently, a new round of criticism has been leveled on the cotton program in particular, and the farm program and farm bill in general, based on press reports regarding the interim decision issued by a WTO panel on the Brazil-U.S. cotton dispute. If press reports are accurate, we find that the panel's initial rulings are very concerning. However, we are also encouraged by the strong statements of support by committee leaders, by Senate Agriculture Committee Chairman Cochran, and the administration regarding the current farm bill.

We share this committee's view that the cotton program complies with our commitments under the WTO, and will continue to support the efforts of U.S. Government officials in the defense of the farm bill. We also realize that this is a marathon and not a sprint, and several steps remain before a final decision will be rendered. We believe the WTO panel got this decision wrong, but we remain committed to the process. A rational, rules-based international trading system is far superior to the alternative. We will do our part, working with this committee and the administration, to maintain an effective U.S. cotton program that complies with our WTO obligations.

In closing, we urge Congress to preserve the current farm bill and keep it intact for the remainder of the term. This will provide stability in production, financing, and marketing, and allow producers to react to the market signal. For our part, the cotton industry will continue to utilize new technology, enhanced management practices, and the most effective marketing strategies, to consistently deliver a top quality, competitively-priced fiber to our domestic and international customers.

Mr. Chairman, we sincerely appreciate the opportunity to be here this morning and provide these comments.

[The prepared statement of Mr. Anderson appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Anderson, thank you very much. I have just been notified that we expect votes on the House floor at approximately 12:15. I hope we can conclude, in fact, that would be my intention is to conclude this hearing by that time, and to help Mr. Peterson with his schedule, I recognize him first.

Mr. PETERSON. Thank you, Mr. Chairman. I will try to be brief. Mr. Ruth, in your testimony, you are talking about this CCC Bioenergy Program, and you said that you think that if it was fully funded, that it would create some startups, we have got a plant that is being considered in Minnesota, and the Minnesota legislature passed, as you know, a biodiesel mandate, so we have got a market in Minnesota that they don't have, that is coming on board, that they don't have in other States. And yet, my sense is that the plant is kind of languishing, this would help, but it seems like they also think they need a credit similar to what we have with ethanol to actually make this work.

So, I mean, could you explain to me how you think this is going to create maybe 12 plants just with this program, and not having the credit like we have with ethanol? Because that is not what I am hearing from some of my people.

Mr. RUTH. Yes, and I am not familiar with the specifics of the Minnesota plant. I do commend the efforts of the Minnesota producers and the legislative body of Minnesota for going forward with the legislation. I think, as this biodiesel industry moves forward, it is going to take a combination of many things, the Bioenergy Program is one component that we do need to continue, and get the tax incentive as part of the energy bill, or the Fisk ETI Bill, or whatever mechanism is moving here on Capitol Hill. We have that issue alive in several bills on the Senate side. Hopefully, with your influence, as those issues get to conference, we can really pull this package together, and carry biodiesel to the next level.

Mr. PETERSON. But you say here that there may be as much as a dozen new facilities just from the Bioenergy Program. Have you got those identified?

Mr. RUTH. I don't have the numbers in front of me, but one thing that does concern us is that this program is set to expire in 2006. So, while it may be not fully effective at this level, it is going to continue to decrease if the funding level decreases.

Next year's budget, there is $100 million in the program. This year, we are authorizing $150 million. So if it is not effective at this level, it is going to continue to get worse.

Mr. PETERSON. Yes, we are working as hard as we can to try to get this industry off the ground, but I just have some questions, given the fact that they have capped these payments, which are not actually appropriations. That are mandatory payments that are being capped, similar to what they did with CSP, so I don't think it is helping us any.

Mr. RUTH. I can certainly get further information, and get that to you.

Mr. PETERSON. Mr. Gage, some of my producers have talked to me, apparently there was a small deficiency, or countercyclical payment made to wheat growers, something like 3 cents a bushel or something, that they are now having to pay back. Am I correct about that?

Mr. GAGE. Yes, you are correct that we are going to have to make this small payment back.

Mr. PETERSON. And it is really not a whole lot of money. We have been looking at this, and it seems to me that is almost going to cost us more money to pay this back with the administrative costs of this than if we just waived it. Have you looked at that? Do you agree with that or not?

Mr. GAGE. We have not looked at that.

Mr. PETERSON. I think, from what I could tell, it is, the total amount is something like $300 million for the whole country. Does that sound right?

Mr. GAGE. I am not familiar with the figure.

Mr. PETERSON. Actually, it is only $28 million. Has your group taken a position on this, that we should possibly look at forgiving this, because it is such a small amount?

Mr. GAGE. No, we haven't.

Mr. PETERSON. That hasn't come up in discussions or anything?

Mr. GAGE. It hasn't come up in discussions.

Mr. PETERSON. All right. Thank you, Mr. Chairman.

Mr. MORAN. Very welcome. We are delighted, honored to have the chairman of the full committee, Mr. Goodlatte, the gentleman from Virginia, joining us, and I would recognize him for any comments or questions.

The CHAIRMAN. Mr. Chairman, thank you. I don't have any questions for this fine panel, but I appreciate very much their participation today, and I want to commend you for undertaking this hearing on what is, I think, a new phase of the progress that we make with the farm bill, which has in many, many respects, worked very well. It is still not completely implemented, but it is now mostly implemented, and we are learning about what is working, what is not working in it. I think that your eliciting testimony today is very helpful in that process, because by the time we get done figuring that out, it won't be all that long before we start holding hearings about what we are going to do next. We are not there yet, but we certainly find that checking on the wellbeing of our farm policy and the programs that we put into place 2 years ago is a valuable thing. So I commend you and the members of the subcommittee for your work on this.

Mr. MORAN. Thank you, Mr. Chairman. Thank you for the support in allowing our subcommittee to hold these hearings, and we appreciate your presence today. The gentleman from Texas, Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman. Just a reiteration. I think it is always great to have a hearing in which everybody is pretty well happy, but always pointing out where we could do a little bit better. And that means things are kind of normal down on the farm right now.

Everyone has mentioned in one way or the other the conservation part of the farm bill, and the concern that many areas being now underfunded as a result of the appropriators having to come up with savings, and the limitation that Mr. Peterson was talking about, that is one of the tools available to appropriators to limit mandatory spending in order to make room to do other things that are also important for agriculture. And that is something we are going to have to continue to look at prioritization, and here, where you are making recommendations, it is going to be—I know that I am now speaking for the appropriators, but—and that is not normal for an authorizer, but we are all in this together. We have been dealt the hand now, and we are going to have to make the best of it.

In reference—I believe it was you, Mr. Anderson, talking about, hoping that the savings, that we don't end up losing those savings. One of you talked about that. When you look at conservation spending, in 1937, Congress appropriated $440 million for financial assistance for conservation and $23 million in technical assistance. In 2004 dollars, that would be $6 billion. Instead, we are cutting from $2.4, and that is something—that is an investment for all of America, something that gets overlooked quite often is when we are talking about conservation of our soil and water, that benefits 285 million American people. Yet that is the area that we are now being forced to cut under the system that we are going through.

I appreciate, Mr. Ruth, you and Mr. Gage mentioning food assistance. Extremely important in the whole construct of the farm bill, the recognition of the importance of food aid, both foreign and domestic, is part of the farm bill, and that quite often gets overlooked, as we get into some of these debates we get into.

Yesterday, several of you testified on trade. I would make this observation. The outcome of the WTO round lays the foundation for the beginning of the 2006–07 farm bill. We start next year. Next year, the Congress, this committee, will do as was done for the 2002 farm bill. We will be starting at least 2 years early to do it. It is going to be a challenge, but that is why the same admonition I made yesterday, look for ways to work together. Don't look for ways to divide agriculture.

At this table, I commend each of you. Your associations have done a wonderful job of adhering to that to this point. I anticipate you will do even better in the days and years ahead. We cannot afford the luxury of being divided in the area of trade, and then when we start looking at the priorities. Several of you mentioned—and that goes back to Mr. Peterson's question regarding investment and value added products. Extremely important for us, and again, I am very concerned that that has become the target for elimination. Might be one of the most short-sighted decisions that this Congress can make in this, but that will come in the appropriations process. Final admonition, every one of you have mentioned leave the payment limitations as we limited it in the farm bill. I agree with you, but you don't do that in budgets. You do that on the appropriation bill, so keep lobbying each and every one of our 435, 434 colleagues, each of us here, I don't think have to be lobbied, but keep working on that, because the battle is going to come again on the appropriation bill, and we certainly do not need to lose that one.

Thank you all, each, all of you for being here. Your testimony—again, it is good to end on a positive note, and your panel is ending on a positive note.

Mr. MORAN. Mr. Ruth testified about planting decisions and perhaps planting distortions arising from the farm bill. Does any other commodity group have a sense that that is occurring, either within their commodity, or another commodity that could be grown instead of what they produce?

I would guess that there is at least one at the table who believes that. Mr. Vorderstrasse.

Mr. VORDERSTRASSE. Like I mentioned in the testimony, more water using crops are moving into the Sorghum Belt, because of risk management factors. We have had some people tell us that they are planting a riskier crop, basically, because the crop insurance guarantees them more money in the final end, instead of planting a crop that will stand the dry weather. So, it has been distorting planning intentions.

Mr. MORAN. Any other commodity believe that is occurring? And in regard to the loan rate, I too am troubled by the fact that what we thought we had accomplished in the farm bill in regard to sorghum and its relationship to the loan rate on corn has not been fully realized, and again, would volunteer to work with you to see if we can't get USDA to make decisions in that regard in a slightly different manner, that would actually result in implementation of the policy that was established in the farm bill. So I look forward to pursuing that further with you, and on your behalf. In a broader sense, broader question, are any of your commodity groups looking at the consequences of the changing cost structure and world competition in agriculture? And as we look at farm policies, I hope that over the course of time, if it is not happening today, that we begin to recognize that there may be circumstances in which United States production agriculture is not the low cost provider of an agricultural commodity, and my question is what does that mean? What is the significance of that, if it is true, in regard to farm policy in the future?

We always hear from farmers and from farm groups, we want a level playing field, we can compete with anyone in the world, and I am interested in knowing ultimately whether that is still a true statement. Brazil comes to mind, soybeans in particular. It has been an eye-opening experience for me to read, to learn more about the agricultural competition we receive from Brazil and others. And it seems to me that we ought to be developing policies that address that issue, if it is real. And that issue being what happens if we are not the low cost provider?

Any organization taking a look at that broad issue?

Mr. RUTH. Well, that has certainly been a concern, as you mention, in the case of soybeans. Last spring, ASA took a trip to Brazil, actually took a member of your committee staff along. I know some members of your committee went down following that to get a closer look at the expansion in Brazil, and there is a number of things that we have been trying to put our finger on, and kind of along the lines of things that Mr. Smith talked about, whether it is subsidized financing for agricultural expansion, waiver of taxes on converting land to agriculture. Those are the kinds of things we really need to try to address and just determine how do we remain competitive in the global marketplace, because Brazil now has actually surpassed the U.S. in production of soybeans. This year, they will be off because of harsh growing conditions, but that is definitely a concern, and we are anxious to work with Congress in identifying ways that we can remain competitive.

Mr. ANDERSON. Mr. Chairman. Woody Anderson. The cotton industry is also looking at how we expand our market opportunities, and how we could be more competitive in that world market.

As I testified yesterday, about 90 percent of our product is being exported and coming back into this country, so we have taken a long, hard look at it, and like Mr. Ruth, a year ago in April, we were in Brazil, and looked at their cotton farming production areas there. We still feel like that the cotton industry in this country can be as competitive as anywhere in the world. As we continue to look at new technologies and other opportunities that we have to keep those costs of production down, we do have some concerns, as we have those unexpected costs continue to arise, like some of the fuel costs that were mentioned earlier, but we still feel like that the American cotton farmer can produce with any farmer in the world on a competitive basis, if that field is level and fair.

Mr. MORAN. Mr. Vaughan.

Mr. VAUGHAN. Being competitive is a pretty multifaceted part of it, or equation, I guess you would say. Being able to move farther up the value chain, as we were talking about earlier, that would help, ensuring farmers get a higher return on what they sell.

Infrastructure is a big component of that as well. One of our priority issues this year is getting improvements on the upper Mississippi and Illinois river systems, because we recognize that if we cannot move our product to the world market in an efficient manner, that we are going to fall behind the Brazils and the Argentinas of the world, and so that is a component.

Also, energy costs right now are making it very difficult for us to be able to compete in crowing corn in the United States in many places. So, there is a lot of components in that that we need to address, but technology is taking us a long ways, biotechnology productivity is going up every year. If you look at the trend line, corn yield, it is about a bushel and a half per year that we are increasing yield, and so we have the ability to stay competitive, but we have all these things that we have to roll in together.

Mr. MORAN. I appreciate your comments, and I recognize that my time has expired, but I also recognize that many of these issues are somewhat outside the jurisdiction, the realm of the Agriculture Committee, but I hope by the time a new farm bill rolls around that there is thought given by all of you as to what farm policies need to be in place to enhance the likelihood that American production agriculture is competitive with producers around the world.

And technology infrastructure, those things matter, but we also, I think, need to look at how we develop farm assistance to production agriculture in the country, and I would just like to have a broader look some time on how that may work to our advantage, or at least to avoid any disadvantage.

The gentleman from North Dakota.

Mr. POMEROY. We have, during the time I have been on the committee, Mr. Chairman, had two very different approaches in farm program. I would just ask the panel if anyone would like to go back to a Freedom to Farm approach.

Mr. ANDERSON. Congressman, I would just say that the cotton industry is very happy with the current farm bill, and look forward to working, in developing something in the future on that basis.

Mr. POMEROY. Thank you. Let us go right on down the panel.

Mr. RUTH. I would say at this point we are happy with this farm bill. It provides a level of support for soybean farmers that wasn't there in previous bills, so with some minor modifications, I think we are on the right track.

Mr. MOERY. I would echo that. It gives us stability and something that we can hang our hat on, in the farming community, that we need to know for certain what we have got.

Mr. VORDERSTRASSE. Same here. I think this farm bill is working real well. There is a few things, like I said, that we need to work on, to tweak a little bit, but overall, the farm bill is working real great for sorghum producers.

Mr. VAUGHAN. We would say pretty well ditto, I guess, that we think the farm bill is doing very well, and we believe that the countercyclical—that is—program that was put in, is less trade-distorting and more efficient, as far as a safety net, and so that we would like to stay the course.

Mr. GAGE. We also feel that the farm bill is working, and where we go from here will partially depend on, as I stated earlier, the WTO talks, and I know my group is working on our concept for the next farm bill, what it should look like.

Mr. POMEROY. I appreciate those responses. I mean, I just think fundamentally, from the standpoint of helping family farmers, you provide assistance when they need it. If they don't need it, you don't provide it, and that is a pretty commonsense way to build a farm bill. That is the principle upon which we have built this farm bill. I thought the chairman's handout is very interesting. He wrote a "Dear Colleague"—it seems dear Republican colleague, but I am pleased to have a copy in any event. That shows we are about a third below, in a projected outlay at the time we passed it.

And so not only is it good for farmers, and helpful when they need it, but it is good for taxpayers to not help them when they don't need it, and that is a bargain we can live with. Now, keeping an eye on global trade, Mark, I think you make such an important point there, I have been very interested about the component of the Conservation Security Program that might allow us to build a revenue opportunity for farmers that is going to be unassailable in a trade situation, rewarding conservation practices. And I am a little frustrated that we are not taking this period of time, this very critical period of time before WTO pressure gets even greater, to fully develop and explore what might be achieved with those programs.

I would ask, just throw it open, what would you recommend to the Secretary of Agriculture in terms of the conservation title of this farm bill that we ought to be doing in order to fully understand the potential of this type of approach for the next farm bill?

Mr. Anderson?

Mr. ANDERSON. That is a difficult question, Congressman, and I appreciate you giving me a little time to think through it.

I guess part of that would depend on our understanding and the definition of Green Box and those conservation programs. Those of us in the cotton industry have seen some different interpretations of late of what fits into those kinds of boxes, and so I think as we move toward developing additional conservation programs, or building on CSP in the future farm bill, we would have to know that we had some assurances that those types of programs would fit into that Green Box, and not into the box that some others in the world community are trying to fit them in.

Additionally, I think that anything above the cost of the practice is still being viewed in those trade agreements as being trade-distorting, so I think we very much need to expand on the conservation side of our future farm programs. If, like Mr. Stenholm, it is something that is amenable to the 285-plus million taxpayers in this country, but it is going to be very difficult to, in my opinion, to deliver program support through those type of programs over and above what the practice requires.

Mr. POMEROY. My time has expired. I expect that that captures panel sentiment, general consensus with what was expressed. I do think that we don't have long, and we really ought to be looking at what we can construct that will work under the conservation title.

Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Pomeroy. Mr. Osborne.

Mr. OSBORNE. Thank you, Mr. Chairman.

I thank Mr. Ruth and Mr. Vorderstrasse for being here, because they are both from Nebraska, obviously, and both do a fine job with their organizations, and I am going to ask a question. I just wanted to underscore what Mr. Vorderstrasse was saying, because I have seen firsthand the effects of the drought. Nebraska is on one of those borderline areas, in terms of precipitation, and we have seen a considerable exodus from wheat and sorghum production into corn. And I believe that sorghum uses about, what, 40, 50 percent less water than corn. So this is, when you see the farm bill, actually impacting planting decisions, particularly in areas where water is really short right now. It is disturbing, and something we have to look at. Not much we can do about it now until the next farm bill, but we will certainly keep that in mind, and with that, Mr. Chairman, I yield back.

Mr. MORAN. Thank you very much, Mr. Osborne. The gentleman from Michigan.

Mr. SMITH. Maybe just very briefly, if you would bear with me for a couple yes or no questions. Mr. Gage, will we farmers use Roundup Ready wheat 5 years from now? Yes or no.

Mr. GAGE. It depends on if there is a market for it.

Mr. SMITH. Well, that is part of the question. Let me, and I am chairman of the Research Subommittee in Science, so very concerned about maybe restructuring our agricultural research. That, along with making sure that we do a good job on our trade negotiations is part of how we are going to compete, I think.

Let me go down the line and try another yes or no question. Mr. Moery and Mr. Anderson mentioned payment limits. I am concerned that we got some bad publicity with some farmers reportedly getting millions of dollars, and a yes or no, if you will consider doing it that way, should there be some level of payment limits for price support payments? Mr. Gage.

Mr. GAGE. There is now, so yes.

Mr. SMITH. Mr. Vaughan.

Mr. VAUGHAN. Yes.

Mr. SMITH. Mr. Vorderstrasse.

Mr. VORDERSTRASSE. Can't answer yes or no.

Mr. SMITH. Mr. Moery.

Mr. MOERY. No.

Mr. SMITH. Mr. Ruth.

Mr. RUTH. ASA is opposed to payment limits.

Mr. SMITH. Mr. Anderson.

Mr. ANDERSON. So is the National Cotton Council.

Mr. SMITH. OK, so, I think the publicity, and maybe you should know what hits us in Congress is just a lot of bad pressures on when farmers are given million dollars, and policy-wise, I think that there should, as we approach the next farm bill, that is going to have limited amounts allowed for payments, the less payment limitations there are, the less price support level is going to be. I mean, that is just going to be a fact, in terms of what is going to happen on some kind of limits. So, I think you should reconsider at least some payment limitations personally. I would like to increase the payment limits maybe to $200,000 over the current $150,000, but close the loophole on commodity certificates. Right now, there is no price support payment limitations for large farmers that decide to use the generic commodity certificates, and I assume, Mr. Moery, for rice, and Mr. Anderson, for cotton, you would oppose closing that loophole, is that correct?

Mr. MOERY. Yes, sir. I would.

Mr. ANDERSON. We think certificates are a very useful tool, and would oppose it.

Mr. SMITH. Mr. Chairman, thank you very much. The challenge is ahead of us. Agriculture in this country has always been able to compete on an international market, and I think that test over the next 10 years is going to be even greater.

Gentlemen, thank you for being here.

Mr. MORAN. Yes, very much, panel. We appreciate your participation, your testimony, your response to our questions. Without objection, the record of today's hearing will remain open for 10 days to receive additional material and supplementary written responses from witnesses to any questions posed by a member of the panel.

This hearing of the House Committee on Agriculture is now adjourned.

[Whereupon, at 12:25 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF KEITH COLLINS

Mr. Chairman and members of the subcommittee, thank you for the opportunity to provide a brief review of the performance of the farm economy and the commodity programs of the Farm Security and Rural Investment Act of 2002. The goal of the U.S. Department of Agriculture has been to implement the 2002 farm bill in an effective and timely manner to the benefit of producers, consumers and taxpayers.

This morning, I will highlight a few of those accomplishments and discuss the performance of the 2002 farm bill.

USDA FARM BILL IMPLEMENTATION

USDA's primary goal over the past two years has been to implement all of the 2002 farm bill's provisions as quickly, efficiently and equitably as possible. This has been an enormous challenge, given the passage of the bill in the middle of the 2002 program year. Because we had been preparing for implementation prior to passage, the key provisions were quickly put in place for the 2002 crops. We estimate that 95 percent of the 2002 farm bill has now been implemented. The few remaining provisions are will be implemented over the next several months. The following activities illustrate the current status of key 2002 farm bill provisions.

The commodity provisions of Title I are fully operational, and producers are receiving their authorized benefits. To date, over $15 billion in commodity program payments, including direct, countercyclical, loan deficiency, peanut quota buyout and milk income loss contract (MILC) payments, have been issued. The final report of the payment limit commission was issued and the study of national dairy policy will be released soon.

Under Title II, we are implementing the largest conservation programs in USDA history. One new signup for the Conservation Reserve Program (CRP) has been held, the final rule published last week, and we are now considering when to hold the next signup. The revamped Environmental Quality Incentives Program (EQIP) was launched last May, and the Farm and Ranchland Conservation Program and the Grassland Reserve Program have also been implemented. To help with technical assistance for program implementation, we issued a rule which makes available non-Federal and private sector providers of technical assistance. We are now developing the final rule for the unprecedented Conservation Security Program (CSP) and expect to have it in place this summer.

Under the trade authorities of Title III, USDA has issued a final rule implementing the McGovern-Dole International Food for Education and Child Nutrition Program and implemented the Technical Assistance Program for Specialty Crops.

In rural development, Title VI, we have implemented the broadband, rural local television and value-added agricultural product development programs. We have proposed a rule for guaranteeing electric and telephone notes and are implementing the Rural Business Investment Program with the Small Business Administration.

Under the first-ever energy title in a farm bill, Title IX, we awarded grants under the joint USDA/Department of Energy (DOE) Biomass Research and Development Program, the Renewable Energy and Energy Efficiency Program and the Biodiesel Fuel Education Program. We also issued the final rule for the Commodity Credit Corporation (CCC) bioenergy program, which supports expanded ethanol and biodiesel production. In addition, we proposed a rule for the Federal Biobased Product Preferred Procurement Program (FB–4P), which will require all Federal agencies to prefer biobased products in their procurements, and we expect to issue a final rule soon.

We continue on track to implement the Country of Origin Labeling provision. A proposed rule covering all affected commodities has been issued, and the final rule will be issued later this year. As directed by the Consolidated Appropriations Act, 2004, the program will initially be in effect for fish, fruits and vegetables.

Finally, we are implementing the provisions of Section 10708 of the 2002 farm bill on the compilation and public disclosure of data to assess and hold USDA accountable for the nondiscriminatory participation of socially disadvantaged farmers and ranchers in the Department's programs and expect to issue a report to Congress in the next several months. In the fall, we expect to have procedures in place to track farm program benefits provided directly or indirectly to individuals or entities under Titles I and II, as required by Section 1614.

Collectively, the provisions implemented and those few that remain in the process of implementation are helping to stabilize the farm economy, support the quality of life in rural areas and generate new economic opportunities for farmers and rural residents.

State of the Farm Economy

When USDA began implementing the farm program provisions of the 2002 farm bill in the summer of 2002, the Dow Jones Industrial Average had slipped below 8,000, the price of corn was under $2 per bushel, soybeans were under $5 per bushel and cotton was selling for 35 cents per pound. The farm economy had been weak for so long, beginning with the 1998 crops, many suggested such prices might be the norm for the future. At that time, the 2002 farm bill was poised to be costly and a highly significant part of future farm income.

The story today is remarkably different, as the U.S. agricultural economy has sharply rebounded. The index of prices received by farmers in April was the highest for any month since USDA started keeping records in 1910. Prices have strengthened despite generally good U.S. harvests in 2003 and disruptions in livestock and poultry trade caused by animal diseases. With good harvests and strong prices, U.S. net cash income surged to a record high in 2003 and producers are having another strong income year in 2004.

The improvement in agriculture is the result of some transitory supply factors and some more enduring demand developments. On the supply side for the 2003/04 crops, adverse winter weather in the Former Soviet Union countries and drought in Europe reduced wheat and coarse grain production. In addition, the soybean harvests in the United States and South America were reduced by a variety of factors, including drought and disease. For the 2004/05 crops, dry weather is reducing U.S. winter wheat production.

While these declines in production are likely to reverse in coming years, several positive demand developments appear more persistent. The global economy has substantially strengthened, boosting farm product demand. The variable and generally slow foreign economic growth since 1998, which was 1.6 percent in both 2001 and 2002, finally improved to 2.2 percent in 2003 and further improvement to 3.3 percent is expected this year. U.S. growth, at a near standstill in 2002, rose to 3.1 percent in 2003 and is expected to be above 4.5 percent this year.

The improved foreign economies, combined with lower global production, are increasing U.S. farm exports this year. USDA projects U.S. farm exports will reach $59 billion in fiscal year (FY) 2004, nearly equal to the all-time high. Had it not been for the finding of BSE in December and subsequent decline in U.S. beef exports, U.S. agricultural exports this year would be record-high.

Two added factors contributing to stronger exports are the lower U.S. dollar and China's growing net imports of agricultural products. The trade-weighted value of the dollar, measured against the currencies of countries that import U.S. agricultural products, was 6 to 7 percent lower in 2003, compared with 2001 and 2002. The trade-weighted value of the dollar, measured against the currencies of countries that compete against the U.S. in global agricultural product markets, was 15 to 20 percent lower in 2003, compared with 2001 and 2002. The reduced value of the U.S. dollar makes U.S. farm products cheaper in foreign currency terms and reduces the cost of our agricultural products relative to other potential suppliers.

China's strong economic growth, booming demand for food, accession into the World Trade Organization (WTO) and declining stocks of grain and cotton have caused U.S. agricultural exports to China to rise from $1.4 billon in fiscal year 2002 to an estimated $5.4 billion in fiscal year 2004. China's domestic uses of cotton and soybean meal have each nearly doubled during the past 5 years. U.S. exports of cotton and soybeans to China from October 2003 through March 2004 total $3.6 billion, more than double the level for this period a year earlier.

The improved U.S. economy has strengthened domestic demand for food. Sales in grocery, food and beverage stores during the first quarter of 2004 were up 3.3 percent, compared with one year ago. Domestic demand for some key industrial uses is also very strong. Ethanol production in February set another monthly record, up 25 percent from a year earlier.

On May 12, USDA issued its first official supply, demand and price forecasts for the 2004/05 crop years. With planted acreage based on the Prospective Plantings report released on March 31 and trend yields, USDA projects record high U.S. corn, soybean and rice crops in 2004, a good cotton crop, but a U.S. wheat crop about 11 percent below the 2003 level, which had a record-high yield.

Even with the increase in U.S. production and a rebound expected in European grain production, world markets are likely to remain robust, as stocks going into the upcoming crop year will be the lowest in many years. World grain demand during the current marketing year is expected to outpace production for the fifth consecutive year. By the end of this summer, global grain stocks as a percent of use will be the lowest since 1976 for rice, the lowest since 1972 for wheat, and the lowest on record for coarse grains. Stocks are also low for soybeans and cotton.

Regarding animal agriculture, U.S. production of red meat and poultry was down fractionally in 2003 and is forecast to be only slightly higher in 2004. Combined with stronger consumer demand, livestock and poultry prices remain above recent historical levels despite the discovery of BSE and the outbreaks of Avian Influenza. And, stable milk production last year followed by lower production in the first quarter of this year resulted in surging milk and dairy product prices.

With this market resurgence, farm cash receipts are expected to be a record high $215 billion in 2004. With spending on energy-based inputs up over the past two years, government payments down and a reduction in cattle revenue due to BSE, net cash farm income is forecast to decline from the record-high of 2003, but will still equal the average of the past two years.

With another sound income year in prospect, farmland values will likely rise again. These developments should continue the improvement in the farm sector balance sheet that we saw in 2003.

Finally, consumers will continue to have abundant affordable food, although with strong farm prices, retail food prices are expected to rise 3–3.5 percent this year, compared with 2.2 percent in 2003, as retail prices for red meat, dairy products, poultry, eggs, fresh fruits and vegetables and fats and oils increase.

PERFORMANCE OF THE 2002 FARM BILL

The current state of the farm economy illustrates the important relationship between the performance of the farm economy and the performance of the 2002 farm bill. The 2002 farm bill provides a support structure for major crops and milk that is primarily countercyclical to the performance of commodity markets. When markets for major crops and milk are strong, as they are now, the support structure becomes generally benign; when these markets are weak, the support structure plays a more expansive role in augmenting farm income.

The 2002 farm bill was developed under a budget resolution that increased funding for farm commodity programs above the projected spending level under a continuation of the Federal Agriculture Improvement and Reform Act of 1996 (1996 farm bill), the so-called baseline. This increased funding was motivated by the low farm prices prevailing at the time and the desire by Congress to continue to supplement the level of support provided by the 1996 farm bill, as had been done by disaster and economic assistance legislation enacted in the four years prior to 2002.

Principal payment programs. The 2002 farm bill augments the incomes of major crop producers by authorizing direct payments, marketing assistance loan benefits and counter-cyclical payments. Direct payments are similar to the production flexibility contract (PFC) payments of the 1996 farm bill. These payments are unrelated to what or how much of a commodity a producer grows and the price received by producers. Direct payments are determined by a producer's fixed payment acreage (85 percent of crop base), fixed direct payment yield and fixed payment rate. The 2002 farm bill established direct payment rates slightly above the PFC payment rates that prevailed in the final year of the 1996 farm bill's existence for food and feed grains, upland cotton and rice. Direct payments were also introduced for soybeans, other oilseeds and peanuts—crops that were not eligible for PFC payments under the 1996 farm bill. Other oilseeds are defined as sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, or, if designated by the Secretary, another oilseed. The Secretary has designated crambe and sesame seed as other oilseeds.

Marketing assistance loan rates were increased for feed and food grains, compared with the 1996 farm bill levels; held the same for rice; held about the same for upland cotton and other oilseeds; and reduced for soybeans. New marketing assistance loan programs were introduced for dry peas, lentils, small chickpeas and peanuts.

A new concept, countercyclical payments, was implemented for food and feed grains, upland cotton, rice, soybeans, other oilseeds and peanuts. Countercyclical payments may be viewed as an extension of the "market loss payments" authorized in prior disaster and economic assistance legislation and are similar to deficiency payments used in the 1980's. Under the 2002 farm bill, countercyclical payments became an integral part of the support structure for major crops, rather than an after-the-fact addition that depended on passage of annual legislation. Like direct payments, countercyclical payments are decoupled from a producer's current plantings but depend on the level of market prices. Payment levels are determined by a producer's fixed payment acreage (85 percent of crop base), fixed countercyclical payment yield and a payment rate that varies depending on market price.

Federal farm program spending. Federal spending on farm price and income support programs is sharply below the levels projected at the time the 2002 farm bill was enacted. The fiscal year 2003 Mid-Session Review of the President's Budget released in July 2002, following enactment of the 2002 farm bill, projected that outlays on commodity programs during fiscal year 2003 through fiscal year 2005 would total $52.6 billion. However, the fiscal year 2005 President's Budget released in February 2004, which reflected the improving farm economy, estimated outlays for fiscal year 2003 through fiscal year 2005 at $35.3 billion, about $17.3 billion less than the level projected in mid–2002. Since the February estimates, the farm economy has continued to strengthen and a more current estimate of the reduction in farm program outlays over the period may be about $20 billion.

Current estimates of spending on direct payments are about the same as the initial 2002 farm bill projections. About $5.3 billion is being paid to producers annually in the form of direct payments. For the 2002 through 2005 crop years, direct payments are expected to account for over half of all payments to producers under commodity programs.

In mid–2002, USDA estimated that countercyclical payments for the 2002 through 2005 crop years would total $23 billion. The President's Budget released in February of this year estimates payments over the same period will fall by nearly 50 percent to $12.2 billion and that figure would be lower if based on more recent price forecasts.

Loan deficiency payments, the primary benefit distributed under the 2002 farm bill's marketing assistance loan program, depend on production and market prices. In mid–2002, USDA estimated that loan deficiency payments for the 2002 through 2005 crops would total $12 billion. The fiscal year 2005 President's Budget estimates payments over the period will amount to slightly over $3 billion and that figure, too, would be lower if based on USDA's most recent price forecasts.

As farm program payments have declined, payments have accounted for a much smaller share of U.S. farm income. In 2000, payments to producers, including disaster and economic assistance payments (excluding conservation payments), were $21.2 billion, equal to 11 percent of U.S. farm cash receipts and 37 percent of U.S. net cash farm income. In 2004, these payments are expected to total only $7.6 billion, equal to 4 percent of U.S. farm cash receipts and 14 percent of U.S. net cash farm income.

Changes in program structure. In addition to the performance of the price and income support provisions, the 2002 farm bill featured some substantial changes in the structure of farm programs that merit discussion. One change was that producers were provided the opportunity to update crop acreage bases and payment yields, which then remain fixed for the life of the 2002 farm bill. Producers could update bases for all crops, or they could retain historical bases and add oilseeds to their current base acreage, subject to certain restrictions. Payment yields for direct payments were the payment yields established under the 1996 farm bill, except for oilseeds, which were based on recent yields but factored back to the 1981–85 period. Payment yields for countercyclical payments were the payment yields established under the 1996 farm bill or they could be partially updated, based on alternative methods, but only if bases were updated. Peanut payment yields for direct and countercyclical payments were determined using recent yields.

Prior to passage of the 2002 farm bill, there were 211.5 million base acres of crops eligible for 2002-crop PFC payments. Reflecting the additional crops eligible for payments, producers enrolled 269.3 million base acres of crops eligible for 2002-crop direct and countercyclical payments, including 211.4 million base acres of crops previously eligible for PFC payments, 53.5 million acres of soybeans, 2.9 million acres of other oilseeds and 1.5 million acres of peanuts. For the 2002 crops, producers on 91 percent of all eligible farms accounting for 98 percent of total base acres elected to enroll for direct and countercyclical payments. About 45 percent of all enrolled producers, accounting for 40 percent of base acres, elected to update bases and partially update program yields for countercyclical payments.

While total base acres for crops eligible for PFC payments was nearly unchanged under the provisions of the 1996 and 2002 farm bills, there were considerable differences for individual crops. The largest absolute change in enrolled base acres occurred for corn in which 2002-crop base acreage increased from 81.6 million acres under the 1996 farm bill to 87.9 million under the 2002 farm bill, a 7.6-percent increase. Upland cotton base acreage increased from 16.2 million acres under the prior farm bill to 18.9 million, or 16.3 percent; and rice base acres rose 9 percent, from 4.1 million acres to 4.5 million. In contrast, 2002-crop base acreages of wheat, grain sorghum, barley and oats all declined under the 2002 farm bill. Wheat base acreage for the 2002-crop dropped by 2.2 million acres, or 3 percent; grain sorghum base fell from 13.6 million acres under the 1996 farm bill to 12.1 million, or 11 percent; and barley base declined from 11.1 million acres to 8.8 million, or 20 percent. The largest decline in acreage bases under the 2002 farm bill occurred for oats, falling by more than 50 percent, from 6.5 million acres to 3.1 million.

The changes in base acres are not surprising and reflect economic incentives. Per acre direct payments are generally higher for corn, rice and upland cotton than for other crops eligible for direct payments, and projected per acre countercyclical payments for corn, rice, and upland cotton were generally above those for other crops during the period when acreage bases could be established by producers under the 2002 farm bill. As a result, most producers who reduced plantings of corn, rice and upland cotton since 1991–95, the previous period used to establish bases under the 1996 farm bill, appear to have maintained their bases, while producers who increased plantings of these crops since 1991–95 appear to have increased their bases. In addition, upland cotton plantings have increased in recent years in the Southeast. Since 1998–2001 plantings of wheat, sorghum, barley and oats were considerably below established bases, so declining base acres for these crops were expected.

Producers planted an average of 73.5 million acres of soybeans during 1998–2001. In comparison, producers enrolled only 53.5 million acres of soybean base under the 2002 farm bill. To establish all 73.5 million acres as soybean base, producers would have had to update all bases on the farm, and that would have meant losing corn base. It appears producers believed that maintaining corn base was preferable to establishing a soybean base. This is consistent with differences in expected direct and countercyclical payments for corn and soybeans at the time producers had to establish acreage bases under the 2002 farm bill.

For wheat, feed grains, rice and upland cotton, direct payment yields averaged across all enrolled producers were within 2 percent of payment yields for PFC payments. For soybeans, which did not have a PFC yield, the direct payment yield averaged 30.8 bushels per acre.

Producers elected to update program yields for countercyclical payments on 39 percent of total base acres enrolled under the 2002 farm bill. The average payment yield for countercyclical payments exceeds the payment yield for direct payments by 4.6 percent for wheat, 5.7 percent for upland cotton, 6.4 percent for rice, 10.7 percent for soybeans and 11.7 percent for corn.

Other Commodity Programs. Peanuts, Pulses, Sugar and Dairy. The 2002 farm bill replaced the two-tiered price support program of quota and additional peanuts in place since 1977 with direct and countercyclical payments, marketing assistance loans and a quota buyout. To be eligible for direct and countercyclical payments, a producer had to establish base acreage and a payment yield for peanuts. Producers have enrolled 1.47 million base acres of peanuts with an average program yield for direct and countercyclical payments of 2,989 pounds per acre, compared with average plantings of 1.53 million acres and yields per acre of 2,711 pounds during 1998–2001.

Nationally, peanut planted acreage was down 12 percent in 2002, remained stable in 2003 and, based on USDA's Prospective Plantings report, is expected to be up about 2 percent in 2004. It appears some producers have decided it is more profitable to plant alternative crops or convert peanut acreage into pasture or other uses, rather than continue to produce peanuts.

Outlays under the new peanut program reached $1.6 billion in fiscal year 2003 of which $1.2 billion was paid out in quota compensation payments. In addition to quota compensation payments, producers received $97 million in direct payments, $161 million in countercyclical payments and about $50 million in marketing assistance loan benefits for peanuts in fiscal year 2003.

Under the peanut marketing assistance loan program, the loan rate is $355 per ton, compared with a U.S. average loan rate for quota peanuts under the 1996 farm bill of $610 per ton. The reduction in the loan rate has led to a lower average price for peanuts and has reduced imports of peanuts and peanut products. For example, prior to implementation of the 2002 farm bill, Argentina completely filled its import quota but has shipped only 36 percent of its quota in the past 12 months.

Establishing the loan repayment rate for peanuts has been complicated by a lack of transparent and consistent price information covering all segments of the peanut industry. USDA continues to work with the peanut industry to improve price discovery mechanisms and provide more price transparency for both domestic and international market transactions. USDA has contracted with a third party to examine options for improving the price information used in determining the loan repayment rate and is hopeful that these efforts will lead to more transparent and consistent price information.

U.S. peanuts exports have also declined, reflecting lower production and increased domestic use. During the 2001 crop year, 700 million pounds of U.S. peanuts were exported. U.S. peanut exports fell to 490 million pounds this past season and are forecast to be unchanged this marketing year.

For program pulse crops, transparent and consistent price information for administering the marketing loan program has been difficult to obtain, similar to the problems faced with peanuts.

The 2002 farm bill continued the price support program for sugar. As under the 1996 farm bill, the loan rate for raw cane sugar is $0.18 per pound and the loan rate for refined beet sugar is $0.229 per pound.

The 2002 farm bill established a new marketing allotment program for sugar processed from sugar beets and sugarcane. The 2002 farm bill directs the Secretary to set the overall allotment quantity (OAQ) pursuant to a statutory formula at a level that will result in no forfeitures of sugar to the CCC. Under the formula for determining the OAQ, the Secretary must estimate sugar consumption, carry-in stocks and reasonable carry-over stocks. Reflecting uncertainty regarding these estimates, USDA gradually increased the OAQ over the course of the 2002/03 marketing year, as market prices remained above forfeiture levels. It also became increasing clear that "consumption" as reported by the industry included actual deliveries as well as sales for delivery in the future, making it difficult to interpret trends in U.S. sugar consumption. For the year, U.S. production plus imports slightly exceeded total use and the CCC was able to sell its sugar stocks without causing loan forfeitures.

At the start of 2003/04, USDA set the OAQ at 8.55 million tons and held 0.3 million tons in reserve. The reserve portion of the OAQ reflected uncertainties regarding carry-in, consumption and imports. In April, USDA announced that the reserve would be cancelled. For the marketing year, production plus imports are projected to exceed total use by 0.6 million tons. As a result, stocks are projected to increase from 1.7 million tons at the beginning of this marketing year to 2.2 million tons at the beginning of the 2004/05 marketing year.

Despite the projected increase in stocks, the Prospective Plantings report indicates that producers intend to plant the same amount of acreage to sugar beets as last year. Assuming normal yields and no significant increase in imports, carryover stocks are projected to rise to 2.3 million tons at the end of the 2004/05 marketing year.

The 2002 farm bill continues the price support program for milk at $9.90 per cwt. through December 31, 2007. The Dairy Export Incentive Program continues through 2007. The 2002 farm bill also authorized a new program that provides direct payments to dairy producers, the Milk Income Loss Contract (MILC) program. Under the MILC program, dairy producers receive direct payments if the monthly Class I price in Boston is below $16.94 per cwt.

USDA began issuing payments under the MILC program in October 2002 and has paid out $2 billion in MILC payments to producers since then. At the time the 2002 farm bill was enacted, the Congressional Budget Office (CBO) projected MILC payments would total $1.0 billion through September 30, 2005, the life of the program. The payment rate has ranged from a high of $1.82 per cwt. in April 2003 to a low of zero in during September through December of 2004. Reflecting the recent surge in milk prices, no payments will be made under the MILC program in May, and no payments are projected over the next several months.

The 2.4-million-pound annual cap on payments has been effective in shifting payments to areas of the country with smaller herds. For example, Arizona, California, Idaho and New Mexico account for about one-third of total milk production. Producers in these four States have received about 10 percent of total MILC payments. In contrast, Minnesota, New York, Pennsylvania and Wisconsin also account of about one-third of total milk production and producers in these four States have received nearly one-half of total MILC payments.

Implications for Market Efficiency. The 2002 farm bill continued the market-oriented planting flexibility provisions of the 1996 farm bill. A producer may plant any commodity on base acres, except under certain circumstances, fruits, vegetables and wild rice, without loss of direct and countercyclical payments. The decoupling of payments from planting decisions enables producers to choose the mix of crops that best meet economic, conservation and other objectives. This freedom of choice in determining the mix of crop to produce eliminates inefficiencies caused by government-imposed planting restrictions. While there has been some criticism that the 2002 farm bill "recoupled" production through its base and yield updating provisions, planting data to date suggest producers continue to make planting decisions on market conditions, not base allocations.

Producers have responded to the evolution toward greater planting flexibility and reliance on market returns, as well as agronomic considerations, by shifting the mix of crops produced. For example, 57.8 million acres were planted to soybeans in 1990, down from a peak of more than 71 million in 1979. With the increased planting flexibility beginning with the 1996 farm bill, soybean acreage grew to 64.2 million acres in 1996, to 74.0 million in 2002, and a record high 75.4 million expected in 2004. Expansion has occurred in the Midwest as producers have moved to corn/soybean crop rotations on more acreage, and the Upper Midwest and Western States, as improved seed varieties have led to higher yields in these regions. In contrast, producers have elected to reduce plantings of wheat and minor feed grains in the face of better alternatives and continued dry conditions in some areas. For example, USDA expects 59.5 million acres planted to wheat in 2004, compared with 77 million in 1990 and over 75 million in 1996.

Farm program benefits are received by about one-third of all U.S. farms and cover about 80 percent of principal crop acreage, consequently farm programs do not directly affect a substantial portion of U.S. agriculture. While market forces have increased in importance for the portion of U.S. agriculture covered by farm programs, certain programs such as marketing assistance loans and MILC payments remain coupled to production decisions, which has the benefit of providing more support when production increases and prices decline, but risks prolonging recovery by blunting supply adjustment.

Conservation Programs. The support provided to commodity producers was also enhanced by the expansion of conservation programs in the 2002 farm bill and these deserve mention. Several existing programs were reauthorized and new programs added to assist producers in addressing conservation concerns on working lands. At the time the 2002 farm bill was enacted, CBO projected outlays under the conservation provisions of the 2002 farm bill would be $6.5 billion during fiscal year 2002–07 and over $14 billion during fiscal year 2002–11.

Some of the major conservation provisions of the 2002 farm bill include: (1) an increase in maximum enrollment in the CRP from 36.4 million acres to 39.2 million acres; (2) a steady increase in the level of funding for the EQIP to $1.3 billion in fiscal year 2007; (3) an increase in maximum enrollment in the WRP to 2.275 million acres; (4) establishment of a Grassland Reserve Program (GRP), in which up to 2 million acres may be enrolled to assist producers in restoring and conserving grassland; and (5) creation of the CSP to assist producers in implementing and maintaining conservation practices on working lands.

To implement the many conservation programs under the 2002 farm bill, USDA developed and issued new program rules, trained and updated its workforce and partners on program changes and sought to deliver the programs to America's farmers and ranchers in a timely and efficient manner.

The final rule implementing EQIP was published on May 30, 2003, after evaluating and considering 1,250 public comments. During fiscal year 2003, USDA approved 30,251 EQIP contracts and obligated $483 million in EQIP funds. In fiscal year 2004, USDA has allocated over $900 million in EQIP funding to the States.

USDA conducted the first general sign-up for the CRP under the 2002 farm bill from May 5 through June 13, 2003. Over 71,000 offers for about 4.1 million acres were received and 38,000 offers were accepted for 2.0 million acres. There are currently 34.7 million acres enrolled in the CRP. Given the record high average farm prices this spring and tight crop stocks situation, we have decided to wait until this summer before deciding when to conduct another general CRP sign-up. This will give the Department time to more fully evaluate the supply/demand outlook for major crops for the upcoming marketing year, which will be heavily influenced by this summer's weather.

USDA is aggressively moving forward on implementation of the CSP. We conducted 10 national listening sessions and met with numerous stakeholders in various States prior to issuing the proposed rule. The public comment period closed on March 2 and the Department is evaluating the more than 14,000 public responses. USDA's next step is to conduct a thorough review of the comments, which will be used in developing the final rule. We are on schedule to publish a final rule early this summer followed by program sign-up.

The GRP assists landowners in restoring and protecting grassland. On June 30, 2003, USDA announced the first sign-up for the GRP under a "Notice of Availability of Program Funds." In fiscal year 2003, 241,000 acres were enrolled in the GRP at a cost of $51.3 million. On May 11, USDA released an interim final rule for the GRP. Following publication in the Federal Register, the Department will begin signup, with applications filed any time during the year.

Conclusion

The 2002 farm bill was an outgrowth of concerns expressed by producers, consumers, agribusiness, rural communities and many other stakeholders. Two of those concerns were a desire for a stronger, built-in safety net that producers and their lenders could count on when market prices dropped to low levels and the need to have better tools for addressing resource concerns on working lands. While it may be premature to assess the 2002 farm bill's performance at the end of only its second year, there appears to be general agreement the 2002 farm bill has put in place a set of programs that address both of those concerns.

Commodity programs are functioning as envisioned, with current tight supplies and higher prices for major crops leading to lower payments to producers. Resources are being allocated by costs and returns largely determined by market prices. Producers have the freedom to select their most profitable enterprises. Our domestic programs have stayed within the $19.1 billion WTO commitment for the Aggregate Measure of Support, and the 2002 farm bill's "circuit breakers" assure that commitments will be met. We are also nearing the time when all the conservation programs authorized by the 2002 farm bill will be fully operational and provide new and improved tools for producers and others to address resource concerns, especially resource concerns on working lands.

This does not mean the 2002 farm bill is without its challenges. Over its remaining life numerous issues may be confronted: When market prices decline, can higher payments be sustained in the face of Federal budget deficits and competing funding needs? If not, what risk management alternatives are feasible? Are the needs of all types and sizes of producers being adequately met by the 2002 farm bill programs? And, there are technical issues as well; for example, will price discovery problems for new marketing loan programs such as pulses and peanuts be solved?

This completes my testimony, and I will be happy to address any questions.

Table 1. Farm Economic Indicators

Commodity Prices	Unit	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04F	2004/05F
Wheat	$/bu	2.65	2.48	2.62	2.78	3.56	3.40	3.55
Corn	$/bu	1.94	1.82	1.85	1.97	2.32	2.50	2.75
Soybeans	$/bu	4.93	4.63	4.54	4.38	5.53	7.65	6.35
Rice	$/cwt	8.89	5.93	5.61	4.25	4.49	7.50	8.50
Cotton	cents/lb	60.20	45.00	49.8	29.8	44.5	62.7 1/	NA
		1999	2000	2001	2002	2003	2004F	2005F
Hogs	$/cwt	34.00	44.70	45.81	34.92	39.45	46.00	45.50
Choice steers	$/cwt	65.56	69.65	72.71	67.04	84.69	84.50	85.50
Broilers	cents/lb	58.10	56.20	59.10	55.60	62.00	73.00	71.00
Milk	$/cwt	14.38	12.40	14.97	12.11	12.52	16.55	13.55
Gasoline, all grades 2/	$/gallon	1.18	1.53	1.47	1.39	1.60	1.87	1.80
Diesel 2/	$/gallon	1.12	1.49	1.40	1.32	1.51	1.67	1.62
Natural gas (wlhd) 2/	$/K cu. ft.	2.19	3.70	4.02	2.95	4.98	5.47	5.87
Electricity 2/	$/kwh	8.16	8.24	8.62	8.46	8.71	8.98	9.13
Ag. Trade (Bil. $)	FY98	FY99	FY00	FY01	FY02	FY03	FY04F	FY05F
Total exports	53.6	49.1	50.7	52.7	53.3	56.2	59.0	NA
Asia	19.7	18.5	19.7	20.1	19.4	21.6	22.1	NA
Canada	7.0	7.0	7.5	8.0	8.6	9.1	9.9	NA
Mexico	6.0	5.7	6.3	7.3	7.1	7.7	7.7	NA
Total imports	36.8	37.3	38.9	39.0	41.0	45.7	49.5	NA
Farm Income (Bil. $)	1998	1999	2000	2001	2002	2003	2004F	2005F
Cash receipts	196.8	187.6	192.0	199.8	192.9	212.4	215.0	NA
Gov't payments	12.4	21.5	22.9	20.7	11.0	17.4	10.3	NA
Gross cash income	222.5	224.0	228.6	235.3	218.4	244.9	240.9	NA
Cash expenses	165.5	166.6	172.1	176.1	170.2	181.9	185.0	NA
Net cash income	57.0	57.5	56.5	59.2	44.1	63.0	55.9	NA

F=forecast.
1/ August through March average.
2/ Source: Energy Information Administration, *Short Term Energy Outlook*, May 11, 2004.

Table 2. CBO Estimates of Farm Commodity Program Spending ($Bil.)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 02-05	FY 02-12
CBO Baseline, March 2002, Commodity Programs	13.368	11.417	9.496	8.167	42.448	83.895
CBO 2002 Farm Bill, March 2002, Title I 1/	14.333	18.583	17.526	15.946	66.388	144.429
CBO Baseline, March 2004, Commodity Programs 2/	13.177	12.123	10.071	10.901	46.272	144.881
Change from Farm Bill	-1.156	-6.46	-7.455	-5.045	-20.116	0.452

1/ Calculated as CBO estimates of outlay changes due to Title I of the Farm Bill added to the CBO March Baseline for Commodity Program outlays.
2/ USDA estimate for FY 2002 and CBO March 2004 Baseline thereafter.

Table 3. USDA Estimates of Farm Commodity Program Spending ($Bil.)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 02-05	FY 02-12
USDA Baseline, February 2002, Commodity Programs	13.271	8.289	7.345	6.347	35.252	68.97
USDA Baseline, July 2002, Commodity Programs	15.022	19.928	17.716	14.973	67.639	129.461
USDA Baseline, February 2004, Commodity Programs	13.177	12.125	11.166	12.002	48.47	117.542
Change from July 2002	-1.845	-7.803	-6.550	-2.971	-19.169	-11.919

Table 4. USDA Estimates of Farm Commodity Program Spending ($Bil.)

	2002/03	2003/04	2004/05	2005/06	2002-05
Direct Payments					
USDA Baseline, July 2002	5.226	5.226	5.226	5.226	20.904
USDA Baseline, February 2004	5.296	5.210	5.310	5.284	21.100
Change	0.07	-0.016	0.084	0.058	0.196
Counter-cyclical Payments					
USDA Baseline, July 2002	6.976	6.363	5.820	3.859	23.018
USDA Baseline, February 2004	1.829	2.45	3.942	3.976	12.197
Change	-5.147	-3.913	-1.878	0.117	-10.821
Loan Deficiency Payments					
USDA Baseline, July 2002	5.209	3.681	2.111	0.992	11.993
USDA Baseline, February 2004	0.546	0.483	1.001	1.021	3.051
Change	-4.663	-3.198	-1.110	0.029	-8.942

Fig. 1--CBO Outlay Projections for the Commodity Credit Corporation

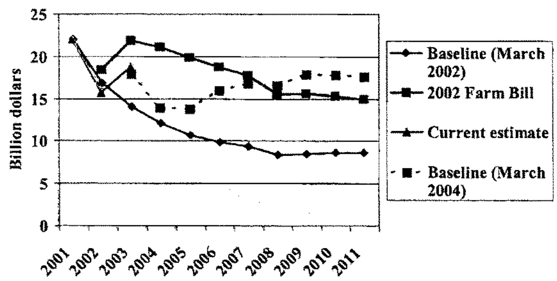


Fig. 2--Commodity Price Forecasts

Commodity	*Previous 5-yr. avg.*	*2003/04F for crops 2004F for livestock*	
Wheat ($/bu)	**2.82**	**3.40**	**+21%**
Corn "	**1.96**	**2.50**	**+28%**
Soybeans "	**4.77**	**7.65**	**+60%**
Cotton ($/lb)	**0.46**	**0.63 to Dec.**	**+37%**
Rice ($/cwt)	**5.76**	**7.50**	**+30%**
Cattle "	**71.94**	**84.50**	**+17%**
Hogs "	**39.79**	**46.00**	**+16%**
Broilers "	**58.20**	**73.00**	**+25%**
Milk "	**13.30**	**16.55**	**+24%**

Fig. 3--U.S. Net Farm Income: ***Wheat, Corn, Sorghum, Barley, Oats, Cotton, Rice & Soybeans***

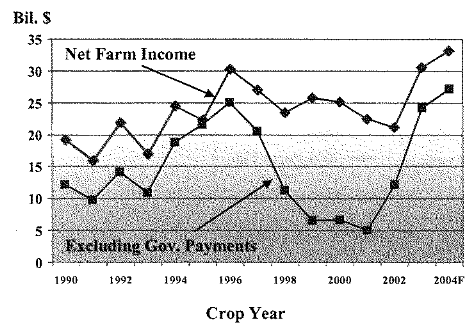
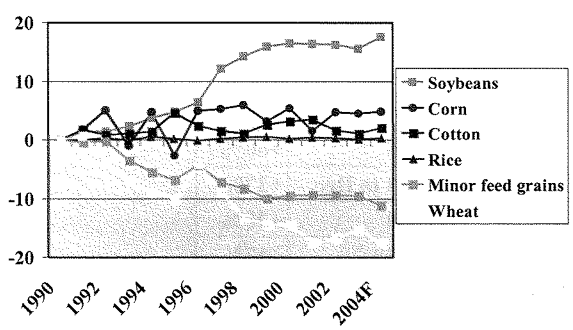


Fig. 4--U.S. Acreage Changes Since 1990



Statement of Woody Anderson

Good morning, Mr. Chairman, I am Woody Anderson, a dry-land cotton and grain producer from Colorado City, Texas. Colorado City is located in the Rolling Plains of Texas near Abilene. I am a proud constituent of Congressman Charlie Stenholm of the 17th district, and I am here today representing the National Cotton Council and serve as its Chairman.

The National Cotton Council is the central organization of the United States cotton industry. Its members include producers, ginners, oilseed crushers, merchants, cooperatives, warehousemen, and textile manufacturers. While a majority of the industry is concentrated in 17 cotton producing states, stretching from the Carolinas to California, the downstream manufacturers of cotton apparel and home-furnishings are located in virtually every state.

Mr. Chairman, as we approach the half-way point of the 2002 farm bill, we thank you for holding this hearing to review the performance of the programs covered by this important legislation. Also, we applaud the members of the House Agriculture Committee for developing a visionary farm bill that meets the needs of today's farmers in a fiscally responsible manner while satisfying our international trade commitments. Committee members worked diligently within budget constraints to develop a bill that was not only balanced across commodities, but also balanced production agriculture with the needs of conservation and nutrition programs.

The Council strongly supported its passage, and we are pleased to be able to say that the farm bill is a success. The legislation remains vital to the structure and stability of the U.S. cotton industry and U.S. agriculture as a whole.

Budget Outlays Well Below Expectations. It is important to correct a misconception propagated by the popular press. Contrary to what many claim, the farm bill is not a lavish handout to farmers. In fact, it has become a very responsible entitlement with an enviable track record on spending. To date, budget outlays are much lower than projected by the Congressional Budget Office (CBO) during the farm bill debate. For the fiscal year2002–04 period, total spending will be approximately $17 billion less than originally projected. The counter-cyclical payment provisions of the farm bill assure that spending will decline as market prices recover. As Congress addresses the budget deficit in the future, we strongly encourage you to take into consideration the responsible track record of the 2002 farm bill and not allow agriculture to be penalized by its previously achieved savings.

An Effective Financial Safety Net That Doesn't Distort Plantings. The decoupled direct and counter-cyclical payments provide an effective financial safety net with minimal impacts on overall production and prices. Counter-cyclical payments have addressed one of the major shortcomings of the previous farm bill by providing additional support in times of low prices. In the case of cotton, the first two crops covered by this bill provide dramatic examples of the performance of the counter-cyclical payments. Low prices for the 2002 crop put the counter-cyclical payment at its maximum of 13.73 cents. As a side note, we commend the Secretary for expediting the counter-cyclical payments for the 2002 crop when it was obvious that the maximum rate would be used. As prices strengthened for the 2003 marketing year, the counter-cyclical payment has become substantially smaller. Although, final prices will not be known until October, NCC economists expect a total payment between 3 and 4 cents.

Also, the decoupled nature of support allows for market signals to play a prominent role in acreage decisions. The planting flexibility that began with the FAIR Act and continues under the current farm bill remains a positive with growers. In general, farmers can adjust their planting decisions based on economic signals and agronomic goals without jeopardizing the basis for program support. Over the past few years, relative market price expectations have been the single largest factor determining year-to-year changes in U.S. cotton acreage.

The current planting season provides further evidence of the flexibility afforded under this farm bill. For the first time since the late 1990's, we are in a situation where several commodities are actively competing for available acreage. Our growers continually tell us that they are responding to market signals and adjusting their crop mix based on relative prices. For example, in the Mississippi Delta, soybeans have pulled some acreage out of cotton as the cotton-to-soybean price ratio fell to its lowest level since the 1980's.

Payment Limits. It is important to remind the Committee that the Council has always opposed payment limits and worked in the farm bill debate to keep any restrictions on benefit eligibility as reasonable as possible. Due to the contentious nature of payment limits, the 2002 farm bill established a 10-member commission to thoroughly evaluate the implications of payment limits. As you know, the commission has completed its work, and the Council commends its diligent efforts and dedication to their task. Along with other industry groups, our President and CEO, Dr. Mark Lange, had the opportunity to provide testimony to the panel. The NCC agrees with the conclusion of the panel's report that more restrictive payment limits would have a negative effect on US agriculture and cause instability in that sector's production, financing and marketing segments. We urge the Committee to heed this finding and reject efforts by certain members of Congress to push for more restrictive payment limits or eligibility requirements.

Base and Yield Updating. One of the key features of the current farm bill was the ability to update base acreages and yields for the purpose of determining decoupled payments. This has been an important feature for our members because it gave growers the opportunity for base acreage to more accurately reflect recent planting history. Obviously, the process of base and yield updates was a significant and complex undertaking for many growers, particularly in the instances where multiple landlords were involved. We commend USDA on its diligent efforts to assist growers and for providing decisions tools to facilitate the process.

Conservation Programs. During the debate of the 2002 legislation, an equitable balance was achieved between funding for commodity, conservation and nutrition programs. The bill authorized a 77 percent increase in spending on conservation programs and introduced new programs such as the Conservation Security Program (CSP). We support maintaining this balance to the extent possible.

Regarding the CSP, the Council has commended the Natural Resources and Conservation Service (NRCS) for developing rules for implementing a new, far-reaching and complicated conservation program on a nation-wide basis. We also recognize that this task was made even more difficult due to a capped entitlement in the initial year of implementation and with unknown and changing funding levels. However, because of the complexity of the regulation and the limited areas of participation, we are concerned that the initial reaction by producers to the CSP will be negative. Once the final rule is published, we will work closely with producers and state offices in the selected watersheds to ensure that the program is workable to eligible growers.

We also support resolving the issue of funding for adequate technical support for all conservation programs. Resolution of this issue is critical to effective implementation of the CSP, EQIP and other important programs.

Trade Programs. The Market Access Program (MAP) and the Foreign Market Development (FMD) Program continue to be critical components of an effective cotton trade policy. The combined investment of private and public funds, coupled with industry marketing expertise, results in innovative, forward-looking programs that leverage money into high impact campaigns and promotional efforts.

Unfortunately, funding under the FMD program, in particular, has not kept pace in the last two years and needs to be strengthened. We also would encourage the Committee to continue its support for a MAP program funded at its 1992 level of $200 million.

We must continue to support and fully fund crucial U.S. export programs if we are to fairly compete effectively in today's global marketplace.

Maintaining the farm bill. Since its passage, the farm bill has come under continual attack from opponents, both in the U.S. and from other countries. We've all seen the gross exaggerations and mischaracterizations across editorial pages. Most recently, a new round of criticism has been leveled on the cotton program, in particular, and the farm bill, in general, based on press reports regarding the interim decision issued by a WTO panel on the Brazil/US cotton dispute.

If press reports are accurate, we find the panel's initial rulings very concerning. However, we are also encouraged by the strong statements of support by Chairman Goodlatte and Ranking Member Stenholm along with Senate Agriculture Committee Chairman Cochran and the Administration regarding the current farm bill. We share this Committee's view that the cotton program complies with our commitments under the WTO and will continue to support the efforts of U.S. government officials in defense of the program. We also realize that this is a marathon and not a sprint, and several steps remain before a final decision will be rendered.

While we strongly disagree with this ruling as it has been reported, we fundamentally understand the value of the WTO and the agreements that brought it to life. We will fight this decision and its ramifications, but we will also work to ensure that the U.S. cotton program complies with WTO disciplines. A rational, rules-based international trading system is superior to the alternative. We will do our part, working with this Committee and the Administration, to maintain an effective U.S. cotton program that complies with WTO rules.

In closing, we urge Congress to preserve the current farm bill intact for the remainder of its term. This will provide stability in production, financing and marketing and allow producers to react to market signals.

We appreciate the opportunity to provide these comments.

STATEMENT OF KENNETH DIERSCHKE

Thank you for inviting the American Farm Bureau Federation to participate in this review of the 2002 farm bill. I am Kenneth Dierschke, president of Texas Farm Bureau and member of the American Farm Bureau Federation (AFBF) Board. I am a cotton farmer from San Angelo, Texas.

Let me start by unequivocally stating that the farm bill is working. This mid-term review conveys the committee's commitment to agriculture and maintenance of the current farm bill. AFBF appreciates your continued support and efforts to maintain safe and stable agricultural and rural economies. The challenges with authorizing and administering new programs, as well as restructuring old programs can be very daunting. The Agriculture Department worked tirelessly to meet many of the deadlines established by Congress.

Unpredictable weather conditions and markets, uncertainties involved with international trade, the value of the dollar and variable input costs have produced turbulent and difficult times for agriculture. The farm bill helps American farmers and ranchers weather financial storms and it provides unprecedented funds for our Nation's conservation needs. This is the most environmentally conscious farm bill in the history of our Nation's agricultural policy. The nutritional needs of the poor, underprivileged, senior citizens and children are also funded through this law.

When the committee began hearings to consider writing the current farm bill in 2000 and 2001, farm commodity prices were at historic lows and government spending for agriculture was high. What a difference two years makes in agriculture. Farm prices have improved, but it is important to note that there are still numerous states affected by multi-year droughts and all farms are affected by high input costs.

The Farm Security and Rural Investment Act (farm bill) has worked as intended. A safety net is available to farmers and ranchers when commodity prices are low. When prices rise, the law functions accordingly without additional funding from the government via counter cyclical payments or loan deficiency payments. The Congressional Budget Office (CBO) says the actual spending level for the bill is $15 billion less or 30 percent lower in the first three fiscal years than the CBO projection when the bill became law. Farm Bureau anticipates outlays to be lower than originally expected in fiscal year 2005 given the lag in government payments and current market prices.

PRICES AND COSTS

Producers of many commodities are receiving a much-needed income boost in farm gate prices this year, however, higher prices for many commodities does not necessarily mean farmers are getting rich. Total production expenditures for agriculture in 2004 are expected to be eight percent above 2002 levels, reaching $207.5 billion.

Farmers spent more than $2.6 billion in additional energy expenditures for 2003 than in 2002. World oil prices hit the $40 per barrel mark last week and set a 13-year high. Oil analysts say prices are not likely to ease any time soon. Duane Smith, a Montana State University economist says rising fuel costs could decrease farm earnings 17 to 28 percent this year compared to last year.

While high grain prices are good for grain producers, they have significantly increased feeding costs for livestock producers who must purchase grain to feed their animals. Chris Hurt, Purdue University marketing specialist, predicts that based on current futures prices for corn and soy meal and hog prices forecasts, losses could average about $2 per live hundredweight over the next 12 months.

According to the Livestock Marketing Information Center, cattle feeders will post losses well over $50 per head at least through August.

Prices of hot-rolled steel have risen 66 percent in the last 8 months to nearly $500 a ton.

In 2002, agriculture spent $6.5 billion on fuel. According to USDA, this year fuel costs will grow to $8.4 billion, a 29 percent jump.

Overall, manufactured inputs are up 14 percent in 2004 compared to 2002.

Federal Reserve Board Chairman Greenspan recently testified that deflation has diminished as a threat to the economy and U.S. banks are prepared to handle an increase in interest rates. A survey of 55 economists finds a clear majority expect the Federal Reserve to raise interest rates regularly beginning in June, with the benchmark Federal funds rate rising from the current one percent to 3.5 percent by December 2005.

MID-TERM REVIEW

Mr. Chairman, I would like to stress four points relating to the farm bill.

1. The results of the ongoing Doha Round of trade negotiations in the World Trade Organization (WTO), in particular the results agreed to on domestic support commitments, must be known and taken into account before the farm community and Congress make changes to the current bill or begin discussion of a new farm bill. New international rules and disciplines on domestic support programs are currently being debated as part of the Doha Round. Farm Bureau strongly supports these negotiations as a means to achieve greater harmonization of trade distorting domestic subsidies, the eventual elimination of export subsidies and important new market opportunities for U.S. agricultural products around the world. However, the negotiations are moving slowly. It is clear that they cannot be concluded successfully before 2006 or perhaps even 2007.

As it relates to the WTO negotiations, there are two ways to approach the question of when the farm bill should be altered.

One would be to make changes in the farm bill for domestic reasons and offer those "reforms" as U.S. commitments in the trade negotiations. This approach puts the cart before the horse. It modifies U.S. programs without full knowledge of the obligations the United States would be expected to assume as part of an overall WTO trade agreement. It also makes changes without knowing what kind of concessions we are going to receive from our trading partners, particularly in the area of market access. Our trading partners would infer that the United States is assuming a "take it or leave it" negotiating position on domestic supports, thus weakening our leverage in both domestic support and other areas of the agricultural talks. The only other option would be a completely new farm bill would have to be written based on the outcome of the negotiations. The result would be a failure to achieve our agricultural objectives because our reforms fall short of WTO requirements or that our domestic support program reforms are not fully or adequately compensated by foreign reduction commitments on domestic supports, export subsidies or market access barriers.

The other approach would be to negotiate a WTO agreement that accomplishes our objectives with respect to harmonization of domestic supports and then to modify our farm bill accordingly—and to the extent necessary—based on the final outcome of the negotiations. This approach provides U.S. negotiators with stronger negotiating leverage and avoids the danger of having undertaken reforms that may not help us achieve our objectives in the negotiations. We are simply not far enough along in the negotiations to anticipate a likely WTO outcome and to make changes to the farm bill that would likely require modification two years later.

The modalities for the negotiations on domestic supports need to be clearly defined before it is reasonable to change the farm bill. Those modalities will provide the specifics on what kind of cuts in domestic support will be required of WTO members. Without the modality numbers, it will not likely be enough to simply reduce program spending and assume that this alone would assure future U.S. compliance with WTO domestic support commitments.

As you know, countries assumed commitments in the previous trade round (the Uruguay Round) based on the extent to which their programs distort trade. Levels of support were reduced and fixed for the most trade-distorting programs (under the so-called Amber Box.) The U.S. limit for Amber Box spending is now $19.1 billion. We do not know what the new U.S. limit will be or what type of programs may be included in the Amber Box as a result of the Doha negotiations.

A second box the Blue Box was also established in the Uruguay Round that allowed trade distorting support programs under certain production-limiting provisions to be exempt from the amber box limits. At the end of the Uruguay Round the United States operated such programs, but ended their use in the 1996 farm bill. They were the old set-aside programs. While the United States has given up the use of Blue Box, the European Union still makes heavy use of the exemption. The United States is pressing for a revised Blue Box that would permit, but limit, expenditures for certain less-trade-distorting programs such as our current counter-cyclical payments. There is no way to know what the final outcome will be with respect to Blue Box commitments.

The third box the Green Box covers non-trade-distorting programs such as the school lunch program, food stamps, research and conservation programs. The Green Box is not likely to be substantially changed in the trade negotiations, although there may be some tightening of criteria for eligibility.

There is never a closed season when it comes to attacks on U.S. farm policy. Purely out of self-interest, other countries routinely criticize U.S. farm programs. AFBF has been consistent in its support of true reform of the three pillars of world agricultural policy - export subsidies, market access and domestic support. But, Farm Bureau will adamantly fight any attempt to unilaterally cut U.S. farm programs. Very conservatively, it is estimated that each farm program dollar turns over three and one-half times in our local communities. Production agriculture will continue to fuel the economic engine that powers the bulk of rural America. The economic priming effect of our farm programs provides a foundation on which an enhanced rural development program can build. Without the farm program as a base, however, the footings of any stand-alone rural development initiative would crumble.

2. Farm Bureau continues to be opposed to any changes in current farm bill payment limitations. Several amendments and bills have been offered to change this provision since passage of the farm bill. One of the primary objectives of the farm bill was to improve the financial safety net available to farmers and to eliminate the need for annual emergency assistance packages. If limitations on benefits are made more restrictive, a significant number of farmers would not benefit from the improved safety net. Simply stated, payment limits bite hardest when commodity prices are lowest.

Proponents of tighter, more restrictive limitations argue that farm programs cause farmers to enlarge their operations and that a few are receiving most of the benefits. Farmers expand in order to achieve economy of scale and to be competitive in domestic and international markets. Randomly established limitations and increased regulatory burdens do not promote efficiency or competitiveness, but they do increase costs and increase the workload for USDA employees.

One of the most popular results of the last farm bill was that producers could spend less time at their county Farm Service Agency (FSA) office and more time managing their farming operations.— Farmers felt the government had stopped micro-managing their business plans.— If payment limits were reduced, farmers would be forced to go to their FSA office much more often. The introduction of payment limits causes economic distortions in production decisions and causes producers to seek ways to avoid the payment limits. Producers of farm program crops have adjusted farm structures to the payment limitation system.

In addition, if row-crop producers were forced to reduce plantings due to tighter payment limitations, acreage will likely switch to specialty crops. Increased production could drastically impact specialty crop markets.

3. The farm bill provision that prohibits planting of fruits and vegetables on program crop acres must be maintained and implemented with the same spirit with which it was included in the farm bill. Several amendments and bills have been offered to change this provision since passage of the bill. The provision was meant to prevent fruit and vegetable producers—who receive no government benefits—from having to compete on an un-level playing field with a program crop producer who switches production due to a volatile fruit or vegetable market one year and moves back into crops covered by farm programs the next year. While the provision has not been changed directly, structural changes to farm program crops have greatly reduced the penalties for producers who choose to plant a fruit or vegetable crop on base acres.

Any weakening of the prohibition would destabilize fruit and vegetable markets that do not receive farm program benefits. What might seem like a small acreage shift relative to the size of the national corn or soybean production could be devastating to fruit and vegetable markets.

4. The Conservation Security Program (CSP) must be available to all producers, implemented as a nationwide program that is workable, and funds must be appropriated to make it an effective conservation incentive program. Producers must receive assistance to help defray the cost of ongoing environmental improvements and regulations. Conservation incentives preserve the rights of property owners and improve the Nation's environment. According to USDA, the $41 million budget for CSP in FY04 will permit USDA to write only 3,000 to 5,000 contracts—out of an estimated 1.8 million producers potentially eligible for the program.

The CSP proposed rule has added eligibility restrictions never anticipated by the law. A new requirement to meet both soil and water quality criteria prior to participation in Tier I and Tier II adds new restrictions. This will severely limit eligibility by anyone other than those who have already achieved what the program sought to create. The CSP program should allow anyone to enter a Tier I contract, which requires only the "adoption and maintenance of conservation practices that address at least one identified resource problem on part of the agricultural operation" or Tier II contract, which requires the "adoption and maintenance of conservation practices that address at least one identified resource problem on all of the agricultural operation."

The watershed approach championed by Natural Resources Conservation Service (NRCS) will give individual farmers and ranchers the opportunity to participate in the program only once every eight years.

While we understand the initial reasoning for targeting watersheds, we contend that CSP should be available to all agricultural producers, rather than in only a few watersheds. Enactment of the 2004 Omnibus Appropriations removed funding limits previously imposed on this program. The final rule should reflect that change and must include extensive revisions to the budget-driven application, implementation and eligibility requirements in the proposed regulation.

Overall, the proposed rule is too restrictive and provides too little financial incentive for many farmers and ranchers to participate. We have encouraged NRCS to change this proposal before the regulation is finalized. We recommended that NRCS address the programs overall lack of clarity by finalizing a regulation that is easy to understand and fosters participation.

The proposed rule restricts the practices eligible for reimbursement and provides payment at a lower rate than those provided in Environmental Quality Incentive Program and other USDA conservation programs. The benefit cost assessment refers to a rate as low as five percent. This approach is counter-productive and will make it difficult or impossible for many producers to afford to participate in CSP.

The statute clearly directs the Agriculture Secretary to establish a base payment. Specifically it requires the secretary to determine "the average national per-acre rental rate for specific land use during the 2001 crop year or another appropriate rate for the 2001 crop year that ensures regional equity." Congress made very clear that it intended for the base stewardship payment to be based on rental rates and the Statement of Managers specifically emphasized that "The Secretary shall not provide a rate lower than the national average rental rate."

We are equally concerned about the proposed eligibility requirement that would require the applicant to have control of the land for the life of the CSP contract. Many rental arrangements in all areas of the country are on an annual basis. In addition, annual contracts are currently more prominent with the annual signup requirements for the current farm bill. While multi-year rental contracts do occur, it is unlikely that a tenant could ensure that he would have control of the land for a five to10 year period at the time of application. A requirement that the applicant have control of the land for the entire contract period at the time of application will severely limit the ability of commercial-size tenant producers to participate in this program.

Finally, it is imperative that producers and Congress remember we are in the middle of the WTO Doha Round. We know that the outcome of those negotiations will likely reduce Amber Box trade-distorting supports and that Green Box non-trade-distorting supports are far less likely to be capped. Some of the support provided this program from Farm Bureau members comes from our hope to balance our domestic support programs and our potential international obligations. Voluntary conservation programs like CSP that provide direct payments and comply with the WTO Green Box requirements are likely to be an important part of future U.S. farm policy.

In conclusion, midstream changes in the farm bill would be devastating not only to farmers and ranchers but the rural economy as well. Many farmers made marketing and planting decisions for five years based on the programs passed in 2002. The farm bill is working. We will continue to work with Congress to maintain the current programs and funding to fully support and administer this farm bill.

STATEMENT OF BART RUTH

Good morning, Mr. Chairman and Members of the Subcommittee. I am Bart Ruth, a soybean and corn farmer from Rising City, Nebraska. I am a past president of the American Soybean Association, which represents 25,000 producer members on national issues of importance to all U.S. soybean farmers. ASA appreciates the opportunity to appear before you today.

THE NEED FOR CONSISTENCY IN FARM PROGRAM SUPPORT

We commend you, Mr. Chairman, for holding this mid-term review of the 2002 farm bill. Experience suggests that conditions two years into omnibus farm legislation are rarely those anticipated when these bills are enacted. Recall that when Congress passed the Freedom to Farm Act in 1996, prices for most program crops were relatively high, and the prevailing thinking was that U.S. farmers could transition away from income support. Two years later, we were facing historic low prices, and Congress had to resort to annual supplemental AMTA payments. In 2002, these ad hoc payments were incorporated into the counter-cyclical income support program. And now, only two years later, prices for soybeans and some other program crops are even higher than in the mid–1990's, and counter-cyclical payments have been made only to cotton and rice producers.

My purpose in mentioning these disparities between farm policy and conditions in the farm economy is not to be critical, Mr. Chairman. As we consider where we are today, it is important to recognize the volatile impact various factors can have on agriculture. Shifts in production due to weather or planting decisions, disease, world demand, competition, and other conditions can change our economic landscape in a matter of months, let alone years. Policymakers must take these realities into account when considering decisions that could affect the viability of production agriculture.

Regarding the development of the 2002 farm bill, we all recall that, as a result of low prices, budget projections in early 2001 indicated that the agriculture baseline would be inadequate to maintain income support levels at prevailing levels. As a result, Congress added $78.5 billion in budget authority to the baseline over 10 years—a decision widely criticized then and now by non-farm constituencies.

In reality, because of higher prices than projected by CBO, spending under the 2002 farm bill has been considerably less than expected. And the decline in cost is continuing. CBO's most recent forecast for farm spending in FY–2004 and FY–2005 is almost $10 billion less than its August 2003 forecast, and $11.6 billion less than CBO projected for these two years when the farm bill was enacted. However, this does not mean that the safety net should not have been put in place, or that it may not be needed during the remaining years of this Act.

Proposals to reduce the agriculture baseline through reconciliation in FY–2006 and future years are not consistent with long-term commitment to protecting farm income represented by omnibus farm legislation. These programs are as important in ensuring the viability of family farmers as other entitlement programs are in providing a safety net for other vulnerable groups. Soybean farmers and others have based long-term economic plans on the assumption that the farm programs enacted in the 2002 farm bill will remain in place through the 2007 crops. To arbitrarily cut support levels would be to violate this compact and place producers at risk.

SOYBEANS AND THE 2002 FARM BILL

I would now like to comment on how soybeans have fared under the 2002 farm bill. At the time of enactment, domestic and foreign demand for soy protein and soybean oil were rising rapidly, and ASA wanted to ensure that our producers would share in the growth of these markets. As the bill began to take shape, we expressed strong concern that support levels for other program crops could be set at levels that would attract acres from soybean production in years when the farm program is a factor in planting decisions.

As we feared, plantings for 2003 crops indicated a two percent decline in soybean acres, despite improvement in prices and exports. Combined with last year's short crop and continuing growth in world demand, this reduction in plantings is responsible for the $10 plus soybean prices we have had this Spring. And as a result of these factors, soybean planting intentions for 2004 have recovered to 2002 levels. However, we continue to be concerned that soybean acres will again decline if the farm program becomes a factor in planting decisions.

In this regard, we would suggest that the counter-cyclical income support program, despite being decoupled from current-year production, may still influence planting decisions in advance of the next farm bill. As you know, Congress used a recent three-year period in determining program crop payment acres for the 2002 farm bill. Many farmers will assume this practice will be used again as they make their planting decisions in the next two years.

As an alternative to base-coupled programs, and recognizing the trend toward truly green box support in the WTO negotiations, ASA has been looking at moving to fully decoupled payments. A study by DTB Associates indicates that, while acreage shifts would not be particularly pronounced for any crop, this approach would result in a slight increase in soybean plantings. ASA looks forward to working with the Subcommittee and the full Agriculture Committee in examining this and other options as we approach deliberations on new farm legislation.

OTHER PROVISIONS OF THE 2002 ACT

I would now like to comment on other provisions of the 2002 farm bill that are important to soybean producers.

Conservation Security Program (CSP). ASA has long supported development of programs providing incentives to producers who practice good conservation. The Conservation Security Program (CSP) was designed to provide producers with incentives to manage working lands for ecological benefits. Authorized in the 2002 farm bill, but not yet implemented, this program is designed to set sustainable farming goals that give producers flexibility.

However, we now face the implementation phase, and some have voiced concerns that payments may not be adequate, and that producers may be excluded who would otherwise qualify under the intent of the legislation. If implemented as Congress intended, CSP will function properly, and ASA members will benefit from this new and innovative program. ASA has submitted comments to USDA making their concerns known.

CCC Bioenergy Program. The CCC Bioenergy Program is critical to building new biodiesel facilities because it allows more affordable purchases of inputs by startup companies. This program has energized the biodiesel industry, helping it transition from research and development to a commercialization phase. We estimate if appropriations match the authorization level of $150 million, more than a dozen new biodiesel production facilities could be constructed throughout the country over the next 24 months.

Bio-Based Initiatives and Section 9002. Section 9002 of the farm bill calls upon USDA to prepare guidelines for use and procurement of bio-based products by our government. USDA is to designate bio-based products for agencies to purchase, and provide recommendations for products with bio-based content; types of items would include cleaning fluids, washing soaps and soy-based fuels, like biodiesel. We are hopeful USDA will advance this program as Congress intended so it will benefit our farmers, rural communities, and the environment.

FMD and MAP. The Foreign Market Development (FMD) program and the Market Access Program (MAP) received increased funding in the 2002 farm bill. ASA is pleased that FMD is now consistently receiving annual funding at the authorized level of $34.5 million. Under the farm bill, funding for MAP is scheduled to increase to $140 million by FY–2005, up from $125 million this year. However, the President's budget for FY–2005 does not include this increase. We are concerned that MAP may not be funded adequately at a time when we are facing tough competition from South America, forcing us to forego marketing opportunities around the world.

Food Aid Programs. The 2002 farm bill attempted to provide a consistent and reliable humanitarian assistance mechanism that would continue the U.S. commitment to feed the world's poorest people. However, in the last two years, non-emergency funding for food aid programs has been rapidly shrinking. Our largest food aid program, P.L. 480 Title II, requires that 1,875,000 metric tons of food aid be provided each year to reduce chronic hunger. The FY–2004 appropriations bill supported this requirement, stating that the 1,875,000 metric ton non-emergency requirement should be met. Nevertheless, only 1,000,000 metric tons of food aid has been actually used for non-emergency programs this fiscal year.

The 2002 farm bill authorized funding for the McGovern-Dole International Food for Education and Child Nutrition program at $100 million for FY–2003, with future years to receive appropriations of "such sums as necessary." However, funding in FY–2004 has fallen to $50 million, and the President's budget request for FY–2005 is for $75 million. These sums are below needed levels, and will result in preventing two million children from receiving one meal a day at school.

This continuing decline in food aid support is impacting efforts to address the HIV/AIDS crisis as well as chronic hunger and malnutrition. While it is important to maintain funding for emergency programs which provide food in the event of natural disasters or war, non-emergency funding for food that helps prolong life and productivity is essential if we are to assist those suffering from AIDS.

Crop Insurance and the Farm Program. One of the questions the Subcommittee asked us to address is whether crop insurance should be incorporated into omnibus farm legislation, since it plays an important role in supporting farm income. Our initial reaction is no. While crop insurance is the government's primary risk management tool, it is quite different from other farm programs. First, the Federal crop insurance program is not an entitlement, and many soybean farmers choose not to buy it. Additionally, this program is at least as complicated as farm bill programs—we would note that action on the Agricultural Risk Protection Act of 2000 took well over a year. Combining two large, highly technical pieces of legislation into one would make oversight and reauthorization of these programs all the more difficult.

Additionally, we are concerned about adding to the rising budget pressure on omnibus farm legislation if the Federal crop insurance program were added to the overall cost. For those non-farm constituencies who are quick to criticize agriculture spending, combining the two most expensive pieces of farm support legislation into one bill would offer an irresistible target.

Other Key Issues Facing Soybean Producers. In closing, Mr. Chairman, I would mention that ASA has been preoccupied in the last two years with several major issues that fall outside the scope of the 2002 farm bill. These include promoting biodiesel use through enactment of a tax incentive in the FSC/ETI bill, the highway transportation bill, or the energy bill, all currently awaiting Congressional action. We appreciate your support for this initiative, Mr. Chairman, and that of other Members of the Subcommittee.

Second, we are trying to find ways to compete with the rise in Brazil's soybean production and exports of soybeans and soybean and livestock products. We have asked our trade negotiators to ensure that developing countries that are also world-class agricultural exporters are subject to the same disciplines as developed countries in the current WTO trade talks.

Third, we are working to prevent the European Union and other countries from restricting access to their markets for U.S. biotech crops, including soybeans, through process-based labeling and onerous traceability regulations. We have asked the Administration to confront the EU's new T&L regulation by bringing a dispute settlement case before the WTO.

Finally, ASA is actively engaged with USDA and other Federal agencies in confronting the threat of soybean rust. We are working with APHIS to ensure that protocols are in place that will prevent accidental introduction of rust through imports. We are also looking at ways to ensure adequate supplies of fungicides are available in the event of a rust outbreak. And we are supporting research through ARS that can develop soybean varieties that are resistant or tolerant to rust.

We appreciate your support, Mr. Chairman, and the support of your colleagues, for ASA's ongoing efforts in these various areas, and look forward to continuing to work with you. Thank you again for the opportunity to appear today. I will be happy to respond to any questions.

Statement of Bryan Moery

Mr. Chairman and members of the Committee, my name is Bryan Moery. I am a rice and soybean farmer from Wynne, Arkansas. I currently serve on the Board of Directors of the USA Rice Producers' Group, a charter member of the USA Rice Federation. The USA Rice Federation also includes the USA Rice Council and the USA Rice Millers Association. Mr. Dan Gertson, a rice farmer from Lissie, Texas, accompanies me today. Mr. Gertson currently serves as the vice chairman of the U S Rice Producers Association.

I am pleased to appear before the Committee today on behalf of the entire rice industry. My testimony represents the consensus position of these organizations with respect to legislation addressing our domestic agricultural commodity programs. On a personal note, I will share with you how excited and honored I am to testify before the Congress for the first time.

Background

Rice production and marketing is a multi-billion dollar activity in the United States. Primarily produced on over 3 million acres in six states, rice accounts for $1.4 billion in farm revenues. Rice production declined modestly in the mid–1980's, but grew sharply in the 1990's, from 156.1 million hundredweight in 1990 to an estimated 191.1 million hundredweight in 2000, an increase of more than 22 percent over the decade.

Rice production in 2004 is forecast to be a record 217.5 million hundredweight. Expected planted acreage of 3.26 million acres would be 8 percent greater than in 2003, based on increased plantings expected in all of the rice producing States except Mississippi.

U.S. rice production provides a versatile, nutritious food product for people here in the United States and around the world. Milled rice provides consumers with a ready food product that has a long, stable shelf life. While the United States produces the highest quality rice in the world, a family of four can prepare rice for dinner at a cost of less than 18 cents. Rice is used in everything from baby formulas to beer, and in a wide variety of ethnic cuisines enjoyed by many Americans.

Rice hulls and other co-products are being used in a number of innovative applications in building materials and to provide energy. Winter-flooded rice fields provide important habitats for migratory waterfowl and other species.Rice is a capital intensive and expensive crop to produce because of its requirement for extensive irrigation. Approximately one-half of the U.S. rice crop is exported each year, with the balance consumed in the United States. In addition, imported rice accounts for about 12 percent of U.S. rice consumption. These imports are primarily made up of specialized varieties of rice that are not widely produced in the United States. However, agricultural research is beginning to make available to U.S. farmers varieties designed to be grown in the United States to compete with these imports.

While the United States is currently the third largest exporter of rice in the world, our share of world export trade has declined continuously over the past twelve years. In 1986 the United States accounted for nearly 30 percent of world exports of rice. This year, the Department of Agriculture projects that U.S. rice will account for only 15 percent of world rice exports. The world's primary exporter of rice is Thailand. Other major exporting countries include Pakistan, India, and Vietnam. The United States competes with these and other countries in the world market. World rice export market share is a critical issue for the U.S. rice industry because we depend on the world market to sell such a large part of our annual production.

Increased global competition places the U.S. rice producer at the mercy of a volatile marketplace. Unlike the price for U.S. produced wheat and feed grains, the price for milled rice traded on the world market is determined in large part by our Asian competitors. The 2002 Farm Bill helps U.S. rice producers to survive the uncertainties that are a result of being dependent on a global marketplace.

THE FARM SAFETY NET: PROTECTING PRODUCER INCOME AND MORE THAN $10 BILLION UNDER BUDGET

During the development and consideration of the 2002 Farm Bill, U.S. agriculture in general, and rice producers in particular, faced continued low prices and declining income. In our testimony before this Committee on March 21, 2001 we expressed concern that rice farmers would not cash flow for lending purposes without additional support from the Federal Government. Congress averted this potential crisis by passing the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill). We commend this Committee and the Congress for its strong support of U.S. rice producers in approving the 2002 Farm Bill. We are pleased to report that in rice country, the Farm Bill is working as it should by providing an important financial safety net during periods of low prices, such as the 2002/2003 crop year. When prices improve, as they have in 2004, the Farm Bill supports are reduced automatically through the counter-cyclical nature of the program. As a result, the 2002 Farm Bill has given producers hope that a strong agriculture economy may emerge that will allow producers to make long term plans and investments with the certainty that is needed to compete in an increasingly global economy.Without the support of the 2002 Farm Bill, rice farmers in the U.S. would face an uncertain future. We encourage Congress to honor the commitments made to producers with its passage of the 2002 Farm Bill, and leave in place for the life of the Farm Bill the safety net that is so important to a stable agriculture economy.

In addition to being necessary and effective, the 2002 Farm Bill has proven to be budget conscious. According to figures recently released by the Congressional Budget Office, outlays for Farm and Conservation programs under the 2002 Farm Bill are forecast to be more than $5 billion below the initial CBO estimates for BOTH Fiscal Years 2004 and 2005.

Congress reduced Farm Bill mandatory program funding by an additional $406 million in Fiscal Year 2004 through reductions in mandatory Farm Bill programs made during the appropriations process. It is clear that while the 108th Congress has not enacted broad based budget reconciliation legislation, our Farm Bill programs have already reduced real expected outlays by more than $5.5 billion. For fiscal year 2005, CBO estimates that the Farm Bill commodity and conservation program spending will fall by over $5 billion below earlier projections. Despite these savings, the President's Budget proposes to slash an additional $660 million out of mandatory Farm Bill programs.

We appreciate that this Committee recognizes the major contributions that the current Farm Bill has automatically made to spending reductions as farm prices have improved. But we must also urge you to oppose further reductions in the farm safety net through reductions in Farm Bill mandatory spending. We also urge you to oppose amendments that will change the basic structure or operation of our farm programs. After a long implementation period, our current farm bill is beginning to work in earnest, and doing its job well. Please do not upset the delicate balance of the farm programs by changing the rules of the game on producers in the midst of the six-year program.

We would also like to take this opportunity to share with the Committee some of the economics of rice farming. Rice farming involves some of the highest costs of production of any of the farm program commodities. From laser land leveling to the building of irrigation dikes and levees, rice farming demands investments of capital and management that are unique in their complexity and magnitude.

The biggest risk to rice farmers comes from price fluctuations and the status of export markets, not from weather related losses of the type covered by crop insurance. This is because rice producers essentially self-insure through the investment of funds to manage the irrigation necessary in rice production. As a result, rice yields fluctuate very little over time, as producers adjust their irrigation and other management tools to the needs of the day. Floods or excessive moisture can usually be managed without great harm to a rice crop. Likewise, droughts can be mitigated with the addition of irrigation water.

As a result, rice producers are more dependent on the Farm Bill commodity program than are the producers of many other program crops.

PAYMENT LIMITATIONS

A matter that was thoroughly debated during consideration of the 2002 Farm Bill was the issue of payment limitations on farm programs. During development of the bill there was extensive media coverage on NBA basketball stars and media moguls receiving government farm program assistance. Farm Bill crafters addressed this issue by including a new adjusted gross income means test that prevents large corporations or those deriving substantial income off the farm from receiving Farm Bill assistance.

Unfortunately, there are those who wish to revisit this thoroughly debated issue. They seek to further reduce payments to some family farmers in a misguided effort to benefit what they believe are more important priorities. This continues to cause uncertainty across the agriculture community.

We urge Congress to heed the advice of the Commission on Payment Limitations that was appointed as required by the 2002 Farm Bill. This Commission was formed for the sole purpose of reviewing farm program payment limit provisions and recommending any needed changes. After months of extensive hearings and review the Commission determined that no modifications were warranted during the life of this Farm Bill. The rice industry agrees with this recommendation and urges Congress to honor its commitment to our producers made in the 2002 farm Bill, and to oppose further restrictions on payment limitations.

CONSERVATION

The 2002 Farm Bill represented the single most significant commitment of resources toward conservation on private lands in the nation's history. The rice industry is proud of its contribution towards a better environment and appreciates the resources that Congress provided through the Environmental Quality Incentives Program (EQIP), Wetland Reserve Program (WRP), Conservation Reserve Program (CRP), and the Wildlife Habitat Incentives Program (WHIP), as well as others, including the new Conservation Security Program (CSP).

We remain excited about the potential for the CSP program and feel that many rice producers deserve rewards for their ongoing environmental stewardship. Rice producers have a rich history of addressing multiple resources of concern. In the course of maintaining an aquatic crop, many rice practices conserve soil, assist in water quality objectives and provide critical habitat for hundreds of wetland-dependant species. Considering these contributions, and other beneficial practices suitable for rice production, we have supported the development of working lands conservation programs that recognize the environmental benefits that can be achieved on productive agricultural lands. While the proposed CSP is not as extensive as we had hoped, we stand ready to work with you to make this program a long-term success.

Unfortunately, most of our producer members are concerned that the CSP program, in the proposed form, will not be accessible to them in the foreseeable future. One primary concern to our producers is the definition of an agriculture operation in the proposed rule. The proposed requirement that a contract application must include all lands that a producer has under "cohesive management", and the requirement that an applicant must have control of the land for the life of the contract, will likely prove to be challenging, especially when applied to diverse operations. We encourage consistency of farm definitions between farm programs and conservation programs administered by USDA. We urge that such key conservation program definitions and designs be formulated and administered consistent with the definitions and administration of similar terms and issues for the farm programs consistent with the 2002 Farm Bill.

Nutrition and Food Aid

The rice industry is also proud of its contribution toward meeting humanitarian needs worldwide through food aid and nutrition programs authorized in the 2002 Farm Bill. Unfortunately, the appropriations process annually reduces the amount of funding for many of these programs despite the amounts authorized by this Committee. We urge Congress to fully fund these programs at the authorized amounts in order to better address domestic and worldwide hunger.

WTO Negotiations

We would also urge the Congress to maintain an adequate farm safety net for U.S. producers in the face of trade negotiations and dispute resolutions pending in the World Trade Organization. Many rice producers are understandably growing skeptical of the benefits of "free trade". Discussions in the WTO about moving toward the reduction of domestic farm program supports makes rice producers very apprehensive. Administration negotiators will have to show real, measurable progress in bringing home market access gains before our producers and processors can seriously consider any reduction in U.S. programs.

In this regard, we salute the intent expressed by many Members of this Committee and the administration to appeal the expected adverse WTO panel report on the Brazilian challenge to U.S. agriculture programs. A strong U.S. defense of the consistency of U.S. farm and export financing programs with our country's WTO commitments is critical to maintaining support in the countryside for trade negotiations.

The 2002 Farm Bill is a vital safety net to rice farmers and our industry appreciates the commitment Congress has made to ensure a sustained domestic food supply. We urge the Committee to avoid future cuts to the support levels embodied in the legislation and pledge our assistance in meeting this challenge.

Again, on behalf of the nation's rice producers, I want to thank you and the Members of the Committee for your interest in these important issues, and for the opportunity to testify. Mr. Gertson and I would be glad to answer any questions that you may have.

Statement of David J. Frederickson

Chairman Moran, Ranking Member Peterson, members of the subcommittee, on behalf of the farmer and rancher members of the National Farmers Union, I am pleased to participate in this oversight hearing to provide our views on the Farm Security and Rural Investment Act (FSRIA). Although I am going to limit my comments to portions of four of the ten farm bill titles, I recognize that each provision of the farm bill requires effective oversight.

In short, I think I would use the title of the Clint Eastwood film, "The Good, The Bad and The Ugly" to describe our opinion of the 2002 farm bill. This view is not so much based on what was included or excluded in the legislation two years ago, but is more directly related to the implementation, modifications and questions about the future of our farm policy vis-a-vis other considerations.

The FSRIA, signed into law 2 years ago, represented the culmination of months of challenging, and in some cases contentious, work on the part of Congress and many others with an interest in farm policy. While it is not the farm bill the NFU proposed, we supported its adoption as representing a reasonable and balanced compromise among the many issues and interests that needed to be addressed.

In particular this farm bill provided the only viable opportunity at the time to reestablish a portion of the funding baseline that agriculture had lost over the previous two decades while at the same time resulting in a lower level of projected expenditures over 10 years than occurred under the 1996 farm bill when the multiyear ad hoc payments to producers that were required to sustain producer incomes are included. It also partially corrected some of the failings of Freedom-To-Farm, by shifting a greater proportion of the economic safety net to counter-cyclical programs and addressing a number of other important priorities for production agriculture, rural communities and our nation in general.

COMMODITY PROGRAMS

The 2002 farm bill made substantial changes in the operation of the commodity programs by enhancing and expanding the availability of counter-cyclical types of support, through marketing loans and target prices, while maintaining a direct, decoupled payment program. For many commodities the loan rates were increased for the first time in decades and new crops became eligible for marketing loans. After a fair amount of controversy over the USDA's interpretation of the law and its process for establishing loan rates for various commodities and regions, the program now seems to be running fairly smoothly.

The peanut program was greatly modified to "buy out" marketing quotas and establish a safety net that is similar to that available for other major field crops. I believe there is still concern among many peanut producers about the cost, equity and future economic stability this program will afford compared to the traditional peanut program. Since the 2002 farm bill was passed, producer peanut prices have declined compared to the 2001 marketing year by 20 percent while payments under the peanut program have risen substantially. A high percentage of those payments, however are made to historic quota holders who may or may not be producers. In addition, while producer prices have declined, the retail price of peanut containing products has not.

The sugar program, which NFU supports, has been widely backed throughout the production and processing sectors of that industry and was retained. It has generally operated on a no net cost basis. Unfortunately, the rush to adopt free trade agreements with a number of surplus sugar exporting nations poses a real threat to the viability of our domestic sugar industry and this program.

Dairy producers were provided a new, targeted counter-cyclical payment program to help offset the devastating impact of prolonged periods of low milk prices in addition to an extension of the traditional price support mechanism. The authorization for the Milk Income Loss Compensation program is due to expire in the fall of 2005. While dairy prices appear to have turned around, at least in the short run, we believe it imperative that the committee begin to consider how best to address the market instability within the dairy production industry that results from a combination of domestic market considerations as well as the impact of dairy product imports that are increasingly displacing domestic production in our own market. Furthermore, the committee should continue to monitor USDA actions related to the operation of the $9.90 per hundredweight price support program to ensure its purchase prices for manufactured products satisfy its obligation to maintain the farm gate price of milk as directed in the farm bill. In undertaking these responsibilities, the committee should direct USDA to complete the examination of the effects of national dairy policy on farm price stability, profitability and rural economies, its impact on Federal nutrition programs and the relationship between the policies and fluid milk cost and utilization.

In general, we believe the commodity title of the farm bill is functioning reasonably well. It is in fact responsible for billions of dollars in reduced outlays for agricultural programs compared to projections at the time the legislation was passed as a result of the policy shift from direct payments to enhanced counter-cyclical programs coupled with improved commodity prices.

CONSERVATION

The 2002 farm bill authorized a substantial increase in funding for the expansion of conservation programs, including the approval of a new conservation incentive program for working lands. We supported these efforts, but are now concerned that USDA is "dragging its feet" through the implementation process as evidenced by the controversy over funding for technical assistance, development of regulations to implement the Conservation Security Program (CSP) and the continued backlog of program applications that are not being processed and approved in a timely manner.

In particular, the CSP regulations being proposed by USDA appear to be contrary to the intent of Congress by establishing a very limited and restrictive watershed approach to a program that was intended to provide incentives for the application of a broad range of conservation practices.

RURAL DEVELOPMENT

The farm bill included a wide spectrum of programs and funding authorizations to encourage and enhance rural development and address the backlog of demand for various programs. These encompassed strategic planning, communications technology, water and waste water projects, training for rural emergency personnel and support for value added market development initiatives.

The NFU was supportive of the provisions contained in the legislation. However, we are concerned that many programs are suffering from a lack of coordination within USDA, among other agencies and the private sector with regard to the management of various resources to reduce duplication, maximize opportunities, encourage well constructed proposals and support the creation of synergies within projects that are targeted to similar development issues.

Furthermore inadequate funding levels and the management of the application process for many of the development loans and grants are reducing the ability of the programs to achieve their objectives.

For many of the grant programs, the timeframe from the date a Notice of Funding Availability (NOFA) is published until the proposals must be submitted has been sixty days or less. For many project developers and/or communities the matching funds required to obtain the range of grants available within the rural development programs as well as project and business plan development funds are difficult to secure and increasingly involve arrangements among multiple parties. Because of these circumstances, many worthwhile proposals fail to meet the NOFA requirements and therefore go unfunded. This system tends to disproportionately advantage those who develop internal grant submission expertise compared to those who may actually develop the most sound and innovative projects.

The proposal development and funding issues are particularly acute for the Value-Added Producer Grant Program where the legislation authorized $40 million per year but only $28.7 million was awarded in 2003 and only $15 million is available this fiscal year. This is resulting in a substantial back-log of proposals, not withstanding the issue of timeliness in the grant proposal process and is restricting the country's ability to address the rural development challenges as envisioned by the supporters of the legislation.

MISCELLANEOUS

Country Of Origin Labeling. After intense negotiation and compromise, the 2002 farm bill authorized the USDA to promulgate regulations to implement a two-year period for voluntary country of origin labeling (COOL) for beef, pork, lamb, fruits, vegetables, seafood and peanuts. The legislation required that by September 30, 2004, the voluntary program would be replaced by mandatory labeling for the enumerated commodities. After poorly disguised actions on the part of the administration and USDA to discredit the provisions of the law, Congress reneged on its commitment to agricultural producers and consumers alike by prohibiting the use of appropriated funds to implement the law for two years. It is clear to everyone that this represents an effort by those who oppose COOL to make the law more vulnerable to full repeal rather than provide an opportunity to improve the provisions contained in the farm bill.

As we engage in more free trade negotiations that will further open our borders to imports, confront a broad range of food safety and biosecurity issues and consider the implementation of a national animal identification system, it is even more critical that producers have this simple tool available to differentiate their products from those which are imported and that consumers be provided additional information regarding the origin of food products.

We urge Congress to reverse its decision and restore both the funding and commitment to the implementation of an effective and efficient mandatory country of origin labeling program.

Disaster Assistance. While the farm bill has substantially reduced the potential need for economic assistance related to depressed market prices by strengthening the economic safety net for producers, it failed to address the needs of producers who suffer production losses as a result of drought, flood, disease and other weather related causes or provide a long term solution to these production loss problems for which the existing crop insurance program is inadequate.

Since the comprehensive, ad hoc disaster assistance provided for production losses sustained in the 2000 crop year, the administration has opposed emergency help for producers unless its costs were offset by reductions in other agricultural program functions. In January of 2003, Congress was able to advance a very modest disaster assistance program as part of the appropriations process only by taking money from other programs. For many producers who suffered weather related losses, this amounted to Washington taking money from one pocket, the CSP and other important programs, and putting it another as limited disaster assistance, while claiming economic help had been provided.

While we recognize the budget situation has made it difficult to support additional spending for all domestic programs, we also believe we need to exhibit a similar level of compassion and understanding for those who have suffered weather related farm losses just like we do for individuals and families who must cope with other types of disasters. In addition, we should recognize that a portion of the reduction in the cost of the farm program has been the result of higher commodity prices due to the production losses suffered by U.S. farmers and ranchers.

Congressman Rehberg and others on the committee have suggested some specific actions that would provide partial relief to these producers, and we fully support those efforts. In addition to these ideas, we encourage Congress to take action this year to provide additional emergency assistance to those crop and livestock producers who have sustained weather related losses for which compensation was not provided, in each of the 2001 through 2004 production years. Without such help, not only will many more farmers and ranchers be placed in an untenable economic position, but the impact on main street businesses and the quality of life in many rural communities will further deteriorate.

Furthermore, we hope Congress will give attention to devising a more predictable and sustainable approach to addressing future production disasters, including those that are multi-year in nature.

We are concerned that the current improvement in producer commodity prices may be taken for granted as it was in 1996. First, we must recognize that even with the improvements to the safety net and other programs provided in 2002, the effective safety net continues to represent but a fraction of a producer's total economic cost of production, and those costs are continuing to rise, while commodity prices will remain subject to great volatility.

Second, the growing Federal budget deficit and efforts by some to further reduce taxes, including a substantial loss of revenue if the estate tax is repealed, are likely to further pressure domestic spending. The history of budget reconciliation suggests that agriculture will be asked to contribute a disproportionate share of any cuts in domestic programs which will further divide those with a genuine and legitimate interest in enhancing the economic opportunities in rural America.

Third, the ongoing multilateral and free trade negotiations, particularly in light of the expected dispute panel decision on the U.S. cotton program, suggest we must be even more vigilant in maintaining our ability to design, fund and defend adequate and effective agricultural policies.

We encourage the House and Senate Agriculture Committees to continue to monitor the implementation of the farm bill to help ensure the commitments which allowed this important legislation to become law are fulfilled in a timely and efficient manner.

Mr. Chairman, thank you for providing this forum to discuss the status of the Farm Security and Rural Investment Act of 2002. I will be pleased to respond to any questions you or your colleagues may have.

Mr. Chairman and Members of the Committee:

My name is Mark Gage. I live in Eastern North Dakota where I raise hard red spring wheat, barley and soybeans. I am currently the President of the National Association of Wheat Growers.

I am pleased to have the opportunity to testify before the Committee to present testimony on behalf of the wheat growers of the United States on the Farm Security and Rural Investment Act of 2002.

The National Association of Wheat Growers understands the challenges under which this 2002 farm bill was crafted, and we express our appreciation for a program that offers stability to the agricultural community as well as to the nation. The farm bill is, as you well know, not just a program that supports U.S. agriculture. It is a public-private partnership that has accomplished more than most people realize.

Many of the programs titles that are a part of the Farm Security and Rural Investment Act of 2002 including food stamps, child nutrition, conservation, rural development are taken for granted by the American people. Yes, and among those programs is the commodity title with its safety net. Most taxpayers would be surprised to learn that all of these benefits come at a price of ½ of 1% of the federal budget. Further, the commodity title is barely more than one-quarter of farm bill spending. However, this is a fact that escapes most consumers and is ignored by activists who are critical of the program.

The commodity title of the farm bill provides certainty in the nation's food supply and more reasonably than in any other country. Consumers not only purchase food from the grocery store, they have the option of a variety of processed foods, prepared meals and meals in restaurants, all for 10.9 cents of their dollar. Not only is the food supply economical, but it is safe. In these days of heightened security, food safety is something that most people take for granted. We have come to recognize our vulnerability through our dependence on foreign oil. The availability of food is even more critical. High quality, low cost food allows our citizens to generate economic growth in other economic sectors, and our farm programs are no small part in ensuring this will continue. It is this vital title that is the keystone of American agricultural policy. Through the support of the commodity title farmers have the ability to make projections and business decisions with some degree of certainty.

Mr. Chairman, it is important to speak to the issue that is so often raised in the discussion of farm policy. Working farms have become larger as farmers seek to take the advantage of economies of scale. What are often referred to as "small family farms" by those who are critical of farm policy are often in reality, hobby farms, or what USDA categorizes as "life style" or "rural residence farms," while what is referred to "intermediate" or "commercial" farms are family operations on which America's production occurs. Farmers, who have increased the size of their operation in order to remain viable as a fulltime producer, should not be penalized because of their business decisions or their size.

Farmers are by nature, stewards of the land. In some cases, they farm land that has been in the family for generations. Restoring wetlands and grasslands and using reduced tillage practices have greatly reduced soil erosion resulting in clean water. They have through the use of modern technology, utilized global positioning systems that assist in precision application of fertilizer and crop protection products. While the size of farms has grown as farmers utilize economies of scale, care for the land has not diminished, thanks to farm bill programs. However, missing from the implementation of this bill is the Conservation Security Program, which the nation's farmers had also built into their long-range plans. The present scope and the proposed rules bear little resemblance to the carefully written intent of Congress. We believe that CSP, a working and productive land's investment in the future, would be a profitable investment for the citizens of this nation.

The wheat industry is supportive of fair and open trade. Fifty percent of U.S. wheat produced is sold abroad. It is through our Cooperator, USW Associates' domestic and overseas offices that consumer relationships are made and enhanced. It is important that trade marketing programs, such as Foreign Market Development (FMD) and Market Access Programs (MAP), which match with producer funds to support these offices and their staff, remain funded at the necessary levels.

This is very important to the health of the U.S. economy, as the export of farm commodities improves the U.S. balance of trade. This is an important fact considering the deficit in our balance of trade reached $46 billion dollars as of March of this year.

Food aid is another area that is important to the wheat industry. Last year, the USDA reported that more than 4 million metric tons of wheat and wheat products were used for food aid. Title I and Title II programs are not only important to wheat producers as a sale of wheat, but also offer a way for farmers to take an active part in helping the world become a better place. We should not be cutting funding for these programs. Food aid not only reduces hunger, but also makes the world a safer place. Terrorists are bred from starving people who see no hope in their future. By donating food and establishing development projects, U.S. food aid programs provide security to all of us – rich and poor. That belief was eloquently expressed by Norman Borlaug as he received the 1970 Nobel Peace Prize: "If you desire peace, cultivate justice, but at the same time cultivate the fields to produce more bread; otherwise there will be no peace."

Agricultural research is more vital today than it ever has been. Agricultural enterprises constitute a highly competitive and complex industry in which many sectors depend on public research to meet many challenges including bio-terrorism threats; evolving plant and animal diseases; competition in foreign markets; providing an ample, safe, and nutritious food supply despite decreasing amounts of farm land combined with increasing population; improving stewardship of soil and water resources; dealing with cyclical changes in weather patterns, and very importantly encouraging new and innovative uses. Many of these challenges can only be solved through substantial investments in both applied and basic research to maintain and increase the competitiveness of the domestic agricultural industry.

Federal agricultural research programs play a unique role in meeting these challenges by providing needed long-term, high-risk research that addresses major questions that impact the entire agricultural industry. Examples include developing an understanding of exactly how pests can attack plants and animals and determining which molecules in wheat flour are needed to produce a good loaf of bread, tortillas, or noodles require large capital investments and cooperation between scientists in different growing areas throughout the nation. This type of research forms the backbone of technological innovation in the industry.

As consumers and farmers struggle with the high cost of fuel, we are mindful of the advantages that accrue to everyone in the research title of the bill that encourages the conversion of crops into energy sources as an alternative to fossil fuels. With our vast resources for producing renewable resources in the US, our nation could significantly reduce our dependence on oil imports if we had a significant, coordinated, nationwide effort to develop alternative energy from agricultural crops, including developing the infrastructure necessary to bring this alternative energy to the consumer.

I hasten to add that if federal research programs are to continue there must be funding to cover mandated federal pay raises for researchers. If this cost is not considered, it must be drawn from research programs, threatening their very existence.

America's farmers have improved their efficiency and the quality of the wheat. They have embraced technology to become increasingly efficient. However, at times weather conditions interfere and neither efficiency nor technology will produce a crop. Farmers must have a safety net through a crop insurance program that will provide an effective risk management tool. The improvements of ARPA (Agricultural Risk Protection Act of 2000) greatly improved crop insurance. In 2003 72% of eligible acres were insured and of the eligible acres, 61% were covered at a buy-up or greater than CAT coverage. America's farmers have come to depend on crop insurance. There must be ways in which the program is improved so that farmers can purchase more affordable coverage at higher levels and prevent or slow declining Actual Production History (APH) due to consecutive disasters. One way of dealing with the loss of income at the time of a disaster would be the establishment of farm savings accounts.

All of these aspects of the farm bill require adequate funding. The National Association of Wheat Growers believes the Farm Security and rural Investment Act of 2002 is good policy, and we believe it is funded at the lowest possible cost. Just as a farmer would be ill advised to plant less seed than is required, this country would be ill advised to partially fund or partially implement this legislation.

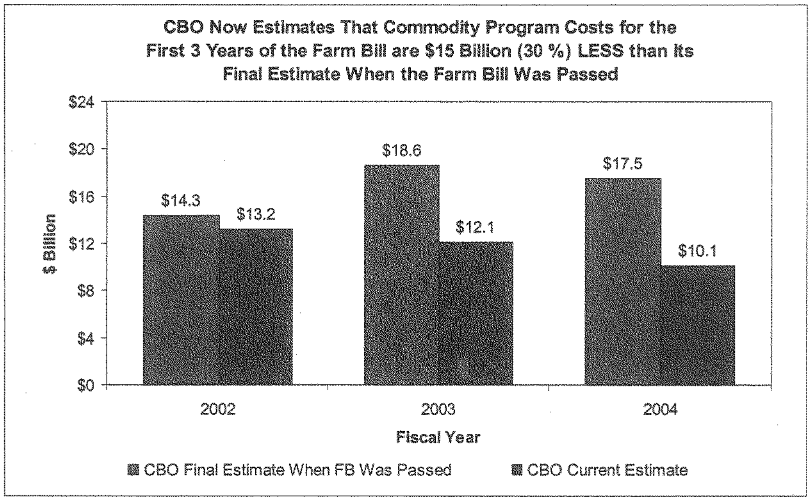
All of these benefits have accrued to the American taxpayer at bargain prices. We have come to realize how little most people understand about the cost of the farm delivery system. Based on USDA estimates, the cost of the farm bill for each individual is 13.2 cents a day. However, based on recent CBO estimates, the cost of the commodity program costs are $15 billion or 30% less than the estimated cost when the farm bill is passed. This should illustrate that the farm bill works as it was intended, providing a safety net. Thus, the carefully crafted commodity title provided support when support was needed.

As you well know, Mr. Chairman, there has been a great deal of publicity criticizing the farm bill, indeed, any farm support policy. Much of this criticism is based on inadequate and inaccurate information, and flows from an agenda inconsistent with good public policy. We believe that the American people have not had the opportunity to form opinions with the benefit of the facts. We in the agricultural community must provide the badly needed facts to defend a program that supports not only producers but supports all of the programs that I have outlined.

Agriculture faces an interesting dilemma. The traditional criticism has been of any policy that adds cost to food. More recently, agriculture has been challenged because public policy has made food too cheap. Farm bill critics can't have it both ways! America's farmers stand guilty of providing the foundation commodities for low cost food and we are proud of that fact. Having said that, we acknowledge and affirm that there must be concern about obesity, especially in our children. However, the plentiful supply of food that provides the only opportunity for good nutrition, a source for alternative energy, an opportunity to better balance America's balance of trade, and a way to fulfill humanitarian aid, are opportunities that we must harness rather than condemn.

The National Association of Wheat Growers has initiated discussions with other farm groups and we have developed an initiative called *Home Grown*. The purpose of this effort is to tell the story of American agriculture to a population often separated from today's farming by two or more generations. This shared effort provides a stronger voice for agriculture as we seek to defend, but more importantly, celebrate the benefits of good farm policy.

Mr. Chairman, and all members of this committee, we thank you and your dedicated staff for the long hours and careful thought you give to the future of United States Agriculture. Farm Security and Rural Investment are complicated concepts, but well worth your effort on behalf of America.



CBO Now Estimates That Commodity Program Costs for the First 3 Years of the Farm Bill are $15 Billion (30 %) LESS than Its Final Estimate When the Farm Bill Was Passed
$ Billion
$24
$20
$16
$12
$8
$4
$0
$14.3
$13.2
$18.6
$12.1
$17.5
$10.1
2002
2003
2004
Fiscal Year
CBO Final Estimate When FB Was Passed
CBO Current Estimate

Introduction

On behalf of the National Grain Sorghum Producers, I would like to thank the Chairman of the Subcommittee on General Farm Commodities and Risk Management for holding the hearing and allowing us the opportunity to discuss USDA's implementation of the farm bill and its impact on the sorghum industry.

My name is James Vordestrasse, President of NGSP, and I farm almost 1600 acres near Hebron, Nebraska, raising 450 acres of sorghum, 400 acres of soybeans, and 275 acres of wheat; my remaining acres are grazed, set aside within the Conservation Reserve Program, and planted to alfalfa.

NGSP represents U.S. sorghum producers nationwide. Our organization is headquartered in Lubbock, Texas, and our major responsibility is to increase the profitability of sorghum producers through market development, research, education, and legislative representation. NGSP members in the states you represent thank the committee members for equalizing the sorghum loan rate with corn's loan rate in the 2002 farm bill.

NGSP is committed to work with the Committee and its staff to ensure that the effort started in the Farm Security and Rural Investment Act of 2002 in support of modernizing the sorghum farm programs continues. USDA needs to change its present interpretation of the farm bill to recognize that sorghum is a much more dynamic crop than it was ten or even five years ago. NGSP feels that the USDA is basing current decisions on old, out-dated data, which has a negatively impact on the program benefits that our producers rely on to ensure that sorghum is used in a profitable cropping system.

A Brief Description of Sorghum

I would like to give you a brief history of sorghum and outline for you some of the unique opportunities that we have is sorghum. Sorghum originated in Africa some 8000 years ago and continues to be a staple in the diet of many Africans. Benjamin Franklin first introduced sorghum to the United States in 1725 when he brought back "broomcorn" from Europe. In the 1850s, the U.S. government began introducing various forage and grain varieties from Africa and China.

Sorghum is known as a "water-sipping" crop. According to research conducted at the Bushland, Texas, USDA-ARS Center, sorghum uses approximately 1/3 less water than corn and soybeans and 15% less water than wheat. It is a crop that is adapted to semi-arid agricultural regions; that is, a region that may receive less than 20 inches of rain a year. Corn and soybeans, on the other hand, are primarily grown in areas that receive approximately 30-40 inches of rain a year. Corn and soybeans raised in the sorghum belt need to be irrigated to produce yields typical of the corn and soybean belt. Because of its excellent drought tolerance and varied uses, sorghum is a very viable option for farmers in the semi-arid Plains states.

This versatile crop is used both in human food systems, as an industrial starch source and as an animal feed. It is currently a non-GMO crop, though NGSP supports work on moving new technologies into the crop. In the last year, non-genetically altered status has provided our producers with unique export market opportunities. Industrially, sorghum, like corn, is valued for its starch content. A prime example of this is the ethanol industry, which can use both corn and sorghum interchangeably in ethanol production. Its co-product, distiller's grain, is a valuable and widely accepted feed for both cattle feeders and dairies.

Worldwide, approximately 50 percent of total production of grain sorghum is consumed directly as human food. USAID has told NGSP that it would like to double the amount of sorghum programmed for its food aid programs. The African countries of Ethiopia, Sudan, and Eritrea that have used sorghum as a staple in their diets for thousands of years have been listed by the World Food Program of the United Nations as nations requiring Emergency Operations for food because of drought and famine.

Industry Overview

The U.S. grain sorghum belt is made up of primarily nine states in the Great Plains, although grain sorghum is grown from California to New Jersey. Sorghum is produced in many of the states that you represent, including Kansas, Oklahoma, Tennessee, Mississippi, Missouri, Georgia, Texas, Louisiana, Arkansas, and California. Over the past ten years, grain sorghum has ranged from a high of 13.1 million acres in 1996 to a low of 9.3 million acres planted in 2000 with an average of 10.0 million acres planted annually. Production from the last 10 years has ranged from 360 million bushels to 795 million bushels, with an approximate value of $1.1 billion annually. In addition, sorghum utilized as silage, hay and grazing represents another 5 million acres of production. The USDA reported that in 2003, 343,000 acres of sorghum was planted for silage, producing approximately 3.5 million tons.

The US is the world's chief producer and exporter of grain sorghum, and the crop ranks fifth in importance as a U.S. crop behind corn, cotton, soybeans and wheat. Roughly 45% of the crop is exported. Of the 55% of the crop that is not exported, 42% goes into pork, cattle and poultry feed, 9% goes into ethanol production; 3% goes into industrial use; and 1% goes into the food chain. Ethanol is our fastest growing domestic market with a 57% increase in use of grain over the past two years with this trend continuing as new plants come on line in 2004 and 2005.

In addition, the U.S. dominates world seed production in sorghum, with a billion-dollar seed industry focused on 250,000 acres primarily in the Texas Panhandle that exports seed around the world.

As you can see this is a not only a unique, drought-tolerant crop, but it is a vital component to cropping systems for many US farmers, and we continue to work with USDA to strengthen the support for the crop.

Farm Bill Policy

NGSP believes that the farm bill is working for producers and we would encourage the committee not to make any significant policy changes at this time. The Counter-Cyclical program is working as intended, providing financial support to farmers in times of low prices. New Congressional Budget Office figures recently released to the press show that farm bill spending is down $5 billion for this year and in 2005. We hope that lower spending on farm programs will be considered by Congress as it works to balance its budget.

NGSP would like to compliment the USDA on implementing the Farm Security and Rural Investment Act of 2002. In particular, NGSP commends USDA for getting information on the new farm bill out to farmers in a timely manner, so producers could begin to understand the impact of the new farm program on their operations, despite the fact that the farm bill was passed so close to planting season. The NGSP Board also wants to compliment USDA on their effort in providing payments to farmers in a timely manner.

NSGP would like to compliment the Committee on its work in past farm bills in which planting decisions were based on market conditions and on the conservation needs of our individual producers.

Today, we have some particular concerns that we would like to share with the committee in our effort to strengthen support for sorghum. NGSP supports correcting inequities in programs that would genuinely give producers the freedom to produce any crops that fit their market plans and conservation needs, rather than basing those decisions on a particular aspect of the farm program. **Of utmost importance to NGSP, we ask the committee to encourage USDA to follow Congress' lead and review and change outdated programs that affect sorghum producers. Some programs that are in need of review and change are county loan rates, risk management programs like Crop Revenue Coverage and the recently announced pilot sorghum silage and conservation programs that are a part of the 2002 Farm Bill.**

Sorghum's Market Has Changed

There have been significant changes in sorghum's markets and those changes must be reflected in programs that affect sorghum production.

This new relationship is best illustrated by the new sorghum and corn price relationship. According to USDA's April *World Agriculture Supply and Demand Estimates (WASDE): 2004*, sorghum and corn prices are expected to be equal, ranging from $2.45 to $2.65. WASDE's estimate for the 2000/2001 crop price placed sorghum at 102% the price of corn, or $1.89 per bushel for sorghum versus $1.85 for corn. This past December, WASDE numbers showed that for the crop year 2001/2002 sorghum's price was 98.5% of the price of corn; in the 2002/2003 crop year it was 100% of corn's price. Mr. Chairman, as you can see, USDA's own numbers support updating programs to reflect these changes in support of sorghum producers.

NGSP continues to work with USDA to address issues related to data collection, and to shorten data timelines used in implementing USDA programs as part of new congressional law. NGSP is concerned that over the last several years NASS data collection has not adequately documented the new buyers of sorghum in the sorghum belt and shown the increased prices paid for sorghum. Additionally, the use of twenty year timelines to implement policy while potentially relevant for larger commodities with more stable or predictable production trends is not fair for sorghum. The sorghum industry today produces on average less than half the sorghum that we did twenty years ago. Not even taking into consideration new, high value markets in ethanol and pet food, the simple production difference makes the supply and demand economics of twenty years ago totally irrelevant to today. However, as new programs are approved by congress and implemented by USDA the sorghum industry continues to receive less support than Congress intended because of the "one size fits all" process that USDA uses to establish programs.

Why Has the Market Changed?

One major driving force in bringing sorghum prices equal to or in many cases greater than, corn has been the demand for sorghum in ethanol production. Ethanol holds tremendous promise as a fuel alternative and is quickly becoming the single largest user of grain sorghum in the U.S. In areas where sorghum is grown and an ethanol plant has been built, the price farmers are paid for sorghum is at least equal to the price paid for corn. Ethanol plants are adding up to 15 cents a bushel to the locally paid price for sorghum. These plants pay the same price for sorghum since a bushel of sorghum produces the same amount of ethanol as a bushel of corn.

Further, sorghum distiller's grain, a co-product of ethanol production, is higher in protein than corn distiller's grain, while corn distiller's grain is higher in fat content. Ethanol plants routinely mix starch source in their processing and a greater understanding of how corn and sorghum compliment each other is an important question being addressed by research. The use of sorghum distiller's grain has tremendous potential in this rapidly expanding feed market.

Five years ago, three times as much sorghum was fed to cattle as was processed through an ethanol plant; now, the same amount of sorghum is processed into ethanol as fed to cattle. This is just one example of how the market for sorghum is changing and why USDA programs need to reflect those changes.

Water Conservation

NGSP applauds the Committee for giving serious consideration to the future of water supplies in the semi-arid regions of the Plains -- a region highly dependent upon sorghum -- by creating the Ground and Surface Water Conservation Program in the farm bill. We would encourage USDA to consider similar water conservation policies and concerns in programs like the Conservation Security Program. As we will soon discuss, a significant amount of water can be saved by switching from higher water use crops to irrigated sorghum in the sorghum belt.

NGSP's members are telling the staff that they are becoming increasingly concerned about the growing conflict between agriculture and non-agriculture competition for water. As you are aware, water is becoming an extremely valuable commodity, and its use is becoming very political, especially in regions like the western Plains. Currently the sorghum belt relies on the Ogallala Aquifer for much of its water. Agriculture uses approximately 95% of this water. Towns and cities within this region have aggressive education programs, and in some cases, laws that are forcing homeowners and businesses to limit water use. However, there is little or no incentive for producers that are using 95% of the water to limit water usage under today's farm and conservation programs. We ask that the committee keep this growing conflict in mind during this and future discussions on farm policy.

We believe that the best way to conserve water is to lower the amount of water used within an agricultural system, not by improving irrigation efficiencies. Unfortunately, concentrating on only improving irrigation technologies and efficiencies like has been done with the EQIP program does not necessarily translate into less water usage. In some cases, this policy has increased water usage, which is contrary to many of the goals of the program. By the same token, programs that would simply set water aside like the CRP program did land will hurt rural economies as well. If you look at the counties in the US that are dependent upon agriculture for economic stability and if you look at the outflow migration studies of counties in the United States you will see that they both match up very well with the sorghum belt. It is critical that USDA use every option available to bring both conservation program dollars like CSP and rural economic development dollars to this area to protect the future.

NGSP has encouraged NRCS to administer this program to encourage farmers to convert to crops that are best suited to limited water needs and that are more adapted to the semi-arid growing conditions of the area. As an example of the impact that a water saving or conserving policy could have on a region, we would like to share with the Committee research that has been published concerning the Texas Panhandle. A Regional Water Plan prepared for the Texas Panhandle Water Planning Group in Amarillo, Texas, has found that the water savings over 50 years for over 21 counties in the Texas Panhandle would amount to 7,360,000 acre-feet of water simply by converting those acres to more water efficient crops, like sorghum.

An acre-foot of water equals 326,700 gallons, roughly enough to supply two, four-person homes with water for a year. On average, water saved over fifty years in these 21 Texas Panhandle counties alone could amount to 147,200 acre-feet per year, which could supply water to 294,400 four-person homes. For reference, the city of Austin, Texas, has 276,842 housing units and a population of 642,994 people, according to the most recent U.S. Census. More than half the households of Austin could benefit from this water savings.

If we broaden the scope of these water savings, the economic impact of converting these areas from higher water use crops to grain sorghum could be astounding when looking at total irrigated plantings in Kansas, Nebraska, Oklahoma and Texas combined.

NGSP is concerned that the Conservation Security Program, as currently written, does not take advantage of significant water savings that sorghum can provide. We ask that as the Committee works on the Conservation Security Program to keep it mind that the program can play a valuable role in determining water quantity, as well as water quality. NGSP believes water quantity should be a priority for this, and future conservation programs. Sorghum is in the unique position of being a crop, which lowers overall water use, while providing farmers with an income stream. Quality does not matter if there is no water!

Farm Program Changes

We strongly support a program that encourages the planting of crops based on sound agronomic, market and environmental reasons. In order to promote the production of agronomically appropriate crops, the USDA needs to modify its loan rate, and risk management programs so that these crops are not placed at a disadvantage when compared to other, typically larger acreage crops.

On the county level, USDA loan rates are not equal with corn. For example, our past NGSP president's loan rate in Oklahoma is 17 cents less than corn. My loan rate for sorghum in Nebraska is 8 cent less than corn. Many of the NGSP board members have been surprised that their loan rates are not equal in their home county. In many of these areas, the price farmers are paid for sorghum is equal to or higher than corn. While the farm bill equalized the loan rate between corn and sorghum, on the local level, huge differences still exist between the two loan rates. In fact, producers are puzzled with USDA's action since they are receiving a higher price for sorghum than corn.

Risk Management Programs

Further, Risk Management government program benefits play a role in farmer's decision to raise high water using crops in the semi-arid sorghum belt. For example, inaccurate crop insurance yields and rates have provided benefits that encouraged the planting of other crops in areas traditionally known for water stress and where sorghum had been the first choice of planting for many years. A prime example of this is Western Kansas, which has had serious drought for the last 5 years, and yet irrigated sorghum acres have continued to drop, while insurance claims have reached record levels. Since 1985, Western Kansas has lost 665,000 planted acres of irrigated sorghum (as reported by USDA). Sorghum does not have tools like Revenue Assurance which are available on other crops.

As a result, Lending institutions are encouraging farmers to plant crops that provide higher insurance protection levels than crops that make more agronomic sense for that area. NGSP asked RMA to update its price elections after the farm bill was implemented by USDA. In a resolution adopted on October 29, 2003, The Federal Crop Insurance Board agreed to change the CRC grain sorghum price to better reflect the current year's estimates of expected year prices. From their October 29, 2003 meeting they stated:

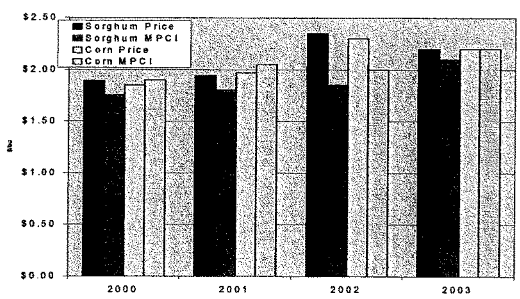
> **"RESOLVED, That Docket No. CI-CRC Grain Sorghum Base-Harvest Price-03-01, Exhibit No. 2208, authorizing modifications to the methodology used in determining the Crop Revenue Coverage Grain Sorghum Base and Harvest Prices to establish the grain sorghum price, by establishing a price relationship between grain sorghum and corn based on the January USDA**

estimate of the grain sorghum and corn prices and multiplying this ratio by the Chicago Board of Trade corn price under the Commodity Exchange Endorsement, beginning with the 2004 crop year AND BE IT FURTHER RESOLVED, that the Board delegates to the Manager the authority to make such technical policy changes as are necessary to make the policy legally sufficient."

RMA told NGSP that it based the price election for sorghum CRC coverage on the WASDE January price forecast, which was predicted to be 105% of the price of corn (sorghum's price range was $2.20 to 2.50, as compared to corn's price range of $2.15 to $2.45) and loan rates. Since the farm bill equalized the loan rate with corn, and WASDE predicted that sorghum's price would be higher than corn's, NGSP expected that the Federal Crop Insurance Board would at least equalize the CRC price election with the corn price election. On January 23, 2004, RMA announced that it would set the CRC price election for sorghum at 96% the price of corn, despite the fact that Congress had equalized the loan rate with corn and USDA's own numbers showed that sorghum was priced above or equal to corn.

While NGSP agrees with USDA that equal crop insurance programs do not impact planting intentions, our members tell us that some financial institutions in fact encourage producers to plant crops with higher levels of coverage or more insurance product options, which means planting a crop other than sorghum. Therefore, it is imperative that RMA keep fair and equitable product availability and program benefits so that there are not certain crops that win at the expense of others.

2000-2003 Price vs. MPCI (Corn and Sorghum)



The graph above demonstrates that MPCI coverage for sorghum is less than coverage for corn. Sorghum farmers are confused and frustrated when they are paid a price equal to corn or, in some cases, a premium at the point of sale and then are told by USDA that sorghum cannot be insured at the price level they are paid.

Seven years after the program was proposed, RMA announced the sorghum silage pilot project for Kansas. It set the price of sorghum silage at 80% of the feeding value of corn silage, despite the fact that research published by the University of Nebraska indicated that the main sorghum variety planted for sorghum silage was equal to the feeding value of corn silage. While we applaud the new product, we question the fairness of the price election. Again, Mr. Chairman, inequities such as these hurt the ability of our farmers to plant sorghum silage in areas typically and rightly thought of as traditional sorghum regions because they are uniquely appropriate for sorghum production.

Conclusion

The combined effect of all of these inequities has been the erosion of sorghum acres in the sorghum belt. Since 1985, sorghum acreage has dropped by 9 million acres; 4 million of those acres were enrolled in the Conservation Reserve Program, with the other 5 million acres going into higher water use crop production.

While not all of the acreage losses can be attributed to farm programs, government policy has played a significant role in the decline of sorghum acres. NGSP is concerned that crops like grain sorghum are not being rewarded for being a low-risk and low water use cropping alternative. Policy traditionally has favored higher gross revenue and riskier crops over sorghum, which is more suited to the semi-arid agricultural regions and cost the government less money. Without corrections to key Farm Bill programs to better reflect the water reality in the country, sorghum is at risk of losing the critical research and support infrastructure it needs to become a more vital part of a sustainable, profitable cropping system that benefits our producers and provides them with choices and also promise benefits in the US and World fuel and food industries.

We would like to thank you and the members of this subcommittee for the opportunity you have given us to present the organization's review of the Farm Security and Rural Investment Act of 2002. NGSP is a strong supporter of this farm bill and appreciates the committee's support.

STATEMENT OF DEE VAUGHAN

Good morning. Mr. Chairman, Members of the Committee, I appreciate the opportunity to appear before you this morning on behalf of the National Corn Growers Association (NCGA). I am Dee Vaughan, a corn, soybean, sorghum, and wheat producer from Dumas, Texas and am currently serving as President of NCGA.

Today, for a variety of factors, corn growers throughout the United States find themselves in a much more favorable commodity market than just two years ago; a stronger livestock industry, tremendous growth in ethanol production, increases in exports, and record production to meet increasing demand. Season average corn prices are projected to range $2.55 to $2.95 per bushel compared to $2.45 - $2.55 last year. Needless to say, it is a welcome and long overdue development. Although NCGA remains very concerned about the impact of chronic drought conditions in the western region of the Corn Belt and export opportunities for U.S. cattlemen, this year's accelerated planting season, overall, appears to have set the stage for another strong year for the corn industry.

According to the March 2004 Baseline Report prepared by the Food and Agriculture Policy and Research Institute, the per-acre market value of U.S. corn production has increased for the fourth straight year in 2003/04. Recent projections for the 2004/05 crop years from the Economic Research Service indicate an increase of 800,000 acres in harvested area to 71.9 million acres. With an estimated 84 percent of the corn crop planted as of May 9, 2004, growers have far exceeded the 5 year average planting pace of 63 percent for this time of the year. These figures clearly reflect farmers' response to the markets. Total corn utilization is expected to climb by 100 million bushels to a record level of 10,505 million bushels. Most of the increase is due to the growth in the food, seed, and industrial use. Corn for the production of ethanol, though, is the major driver behind this year's increase. Following a 20 percent gain in ethanol production in 2003–04, the ERS is now projecting an increase of 9 percent. Producers have responded to the strong market demand by investing in new ethanol plants to expand the capacity of the industry. It should also be noted that state incentives and the Federal bioenergy program have been critical to this success story.

The outlook for corn production and prices is certainly encouraging but, corn growers and other producers continue to face a number of serious challenges and their share of uncertainty in the marketplace. In addition to significant increase costs for seed and pesticides, escalating energy prices are eroding the already slim profit margins for family farm operations through higher costs for critical inputs such as natural gas to operate irrigation equipment and diesel fuel to operate essential farm equipment. Just last year, the entire farm sector experienced a 30.8 percent increase in fuel expenses.

NCGA is particularly concerned by the 68 percent rise in the price of natural gas in 2003. A primary ingredient for fertilizer, it shows few signs of returning to the price levels of previous years. Nitrogen fertilizer is essential for efficient corn production. In the United States, nitrogen is applied to 96 percent of all corn acres. According to data from the University of Illinois, without nitrogen fertilizers, corn yields in that state would be reduced by one-third to one-half. However, the U.S. nitrogen producers on whom we depend are facing a serious crisis. Nitrogen fertilizers are produced using natural gas as the feedstock, accounting for 75–95 percent of the total cash cost of production. High natural gas prices are creating difficult cost-side pressures. At the same time, Russian exports are flooding world markets with fertilizer produced from natural gas obtained at government-set prices that are 30% below the delivered cost of producing the gas.

While corn growers enjoy a short term benefit from these exports, we well understand the long term downside. The U.S. nitrogen supply base has eroded to the point that imports now account for almost half of U.S. nitrogen supply. If this trend continues, American farmers will be forced to rely almost entirely on offshore supply, and on an infrastructure incapable of moving such a large portion of import supplies from the ports to our farmers on a timely basis. It is time for the Congress to address the inadequate domestic supply of natural gas and to secure in our trade negotiations with Russia a commitment to reform the commercially distortive natural gas pricing policies that are damaging our domestic nitrogen industry.

The bottom line is that due in large part to rising energy costs, overall production expenses for farmers and ranchers rose an estimated 6 percent in 2003, the largest increase since 1997. Consequently, NCGA remains steadfast in its support of comprehensive energy legislation and urges this Congress to send a bill to the President this year.

I do not need to remind this committee of the wide range of risks that farmers and ranchers confront year in and year out. As recently as 2002, the same year the

Farm and Security and Rural Investment Act was enacted, farm income dropped by $13 billion. Severe drought, depressed commodity markets, and the transition to a new a farm bill converged to create real financial pressures for many farmers and rural communities. Even today, uncertain prospects for U.S. beef production and exports have led the ERS to forecast net farm income to decline by $7.3 billion. If our number one customer, the U.S. livestock industry suffers, corn growers will be impacted as well. No farm policy can or should ensure a risk free environment for producers. NCGA believes the 2002 Farm Bill, as implemented, is providing a sound, responsible and effective safety net.

Fortunately, we now have a new counter-cyclical payment program that better protects our growers from severe financial losses when prices plummet. And this is precisely why we need to stay the course and resist reopening up the farm bill. Following several years of ad hoc economic assistance, we now have a farm policy that offers more predictability and fiscal discipline; one that limits assistance to producers to the times when aid is most needed. In fact, if corn prices remain at current levels, producers will be required to repay an estimated $696 million in advance counter cyclical payments that were received last fall. NCGA has already joined officials at the Farm Service Agency in communicating this announcement by reminding our members of this provision and their options for resolving the potential refund. We applaud the agency for the common sense manner in which they are handling this issue and taking the time to properly explain the procedures. You can well imagine that this is one letter that producers would rather not receive. But, this is how the program is supposed to work.

Another key component of the farm safety net is the marketing loan assistance program. First and foremost, though, this program helps to ensure the orderly marketing of grain throughout the year. The USDA is to be commended for making long overdue adjustments in county loan rates that more accurately reflect local market conditions. When NCGA brought to the department's attention problems regarding disparities in posted county prices or loan rates between county and state lines resulting from the adjustments, officials from the Farm Service Agency worked very cooperatively with our staff and growers to develop appropriate solutions. Given the shifts in livestock production and expansion of the ethanol industry, NCGA believes that further analysis by the FSA will be needed to ensure that the marketing loan program keeps pace with the changes in local markets as well as transportation and grain distribution systems.

As this committee reviews the effectiveness of current farm policy and its implementation, I cannot overemphasize the value of Congress staying the course. Growers must make long term capital investments and business decisions based on provisions and programs they expect will not be significantly altered over the life of the farm bill. Moreover, midcourse changes, including proposals to further restrict farm support payments are extremely divisive as well as inequitable. Imposing more restrictive payment limits will cut off support to producers when they most need assistance—at times of extremely low prices. NCGA continues to support the current limitations on direct and counter cyclical payments as well as marketing loan benefits.

Over the past year, NCGA has acknowledged the growing concerns in the Congress over rising Federal budget deficits. Despite the fact that the Congressional Budget Office is projecting substantial reductions in spending for the farm safety net through Fiscal Year 2008, nearly $8 billion, we continue to hear and read criticism of U.S. farm programs as a significant contributor to the increase in spending. What we have found is that the criticism from the media, more often than not, reveals a fundamental lack of knowledge and understanding of modern production agriculture and the changes which have occurred in recent farm policy to achieve rural economic and environmental goals established by the Congress. Moreover, these same critics are ignoring a relatively small growth rate of 3.2 % in discretionary agriculture appropriations compared to 8.3 % for all non-defense bills.

In addition to providing a much needed market-oriented safety net, I must emphasize NCGA's interest in the other farm bill titles that assist producers wanting to move further down the value-added chain, promote investments for innovative rural economic development initiatives and advance renewable energy as well as biobased products. NCGA is therefore; concerned by reduced funding commitments for important programs such as value added agriculture product market development grants, and renewable energy initiatives. Similarly, we are also concerned by the slow progress toward implementing the Rural Business Investment Program and Federal procurement of biobased products. These are two programs that offer considerable potential for attracting new venture capital to our rural communities and building markets for biomass industries. Just as growers have captured more value from their corn production by investing in ethanol plants, NCGA is optimistic that the new initiatives in the farm bill's rural development title can pave the way for producers to seek additional entrepreneurial opportunities and market niches.

One of the major reasons NCGA so strongly supports the 2002 Farm Bill is that a wide range of priorities are addressed in a comprehensive and balanced way. NCGA would like to thank the committee for its leadership in supporting a conservation title for the 2002 farm bill that demonstrated a significant commitment to conservation on private land. Growers appreciate the expanded Environmental Quality Incentives Program (EQIP) and the Wetlands Reserve Program and the creation of the Conservation Security Program (CSP). These programs are voluntary, incentive-based programs that help corn growers care for their land, while providing numerous environmental benefits.

NCGA believes CSP, if properly implemented, can provide a great opportunity to increase conservation and generate significant environmental results for farmers and the public. However, if implemented as proposed, most corn growers would not qualify for a CSP contract. The rule was not written for the average, commercial farmer though they could provide the greatest benefits. NCGA is particularly concerned with the definition of an agricultural operation and the ongoing funding debate. These should be resolved quickly so that the program can be implemented as intended.

NCGA also is concerned about the continuing struggle over funding sources for technical assistance. Unfortunately, the funding has eroded due to the interpretation of the farm bill and the provision in the 2003 Omnibus Appropriations bill. Last year the EQIP program was authorized at $700 million. —The Appropriations Committee reduced it to $695 million. Year-end funding was only $558 million because EQIP was required to contribute funds for technical assistance requirements of the Conservation Reserve Program and the Wetlands Reserve Program. NCGA firmly believes that each conservation program should pay for its own technical assistance.

NCGA also is generally concerned that conservation programs are not being implemented and managed with the farmer in mind. Common problems include the lack of outreach to growers, the domination of state technical committees by nonfarm organizations or individuals, the failure to recognize the economic challenges growers face, and a focus on solving minor conservation or environmental problems. Most of these problems are encountered at the state level. NCGA would appreciate the committee's attention to these issues.

Mr Chairman, the success of the Farm Security and Rural Investment Act of 2002 can be evaluated in many different ways. For the American consumer, the investments we make in farm programs help to ensure the safest and most affordable supply of food anywhere in the world. To be sure, the entire food and agriculture sector from the farm gate to the table is a beneficiary of the farm bill and generates one sixth of our Nation's gross domestic product. I have attempted to provide you and the committee an objective assessment of the farm bill and an overview of the corn industry's performance. While market forces and how producers respond to them ultimately determine our success, today's farm bill enables U.S. corn growers to make further advances in food production, renewable energy, and conservation practices that would not be possible otherwise. Our farm programs, in fact, have helped to create new opportunities that have resulted in additional benefits for both producers and the American taxpayer. Finally, I want to thank you for conducting this hearing. We appreciate your strong leadership and commitment to U.S. agriculture and ask for your continued support of this landmark legislation.

○